УДК 336.13

Anatolij Mjarkovskyj

STRATEGIC AREAS OF THE DEVELOPMENT OF THE PUBLIC FINANCE MANAGEMENT SYSTEM

Issue of formation and implementation of the development strategy of the public finance management system in Ukraine is analyzed. Specific features of public finance development in foreign countries in the post-crisis period and measures to ensure its stability are disclosed. Approaches to the formation of a new, better level of the public finance management in Ukraine considering the experience of the EU Member States and the peculiarities of the development of our country are defined.

Keywords: public finance, sustainability of public finance, fiscal consolidation, public finance transparency, medium-term budget planning.

JEL classification: H30, H50, H60, H63.

А. І. Мярковський

СТРАТЕГІЧНІ НАПРЯМИ РОЗВИТКУ СИСТЕМИ УПРАВЛІННЯ ДЕРЖАВНИМИ ФІНАНСАМИ

Розглянуто питання формування й реалізації стратегії розвитку системи управління державними фінансами України. Висвітлено особливості розвитку державних фінансів у зарубіжних країнах у посткризовий період та заходи щодо забезпечення їх стабілізації. Визначено підходи до формування нового, якіснішого рівня управління державними фінансами України з урахуванням досвіду країн — членів ЄС та особливостей розвитку нашої країни.

Ключові слова: державні фінанси, стійкість державних фінансів, фіскальна консолідація, прозорість державних фінансів, середньострокове бюджетне планування.

А. И. Мярковский

СТРАТЕГИЧЕСКИЕ НАПРАВЛЕНИЯ РАЗВИТИЯ СИСТЕМЫ УПРАВЛЕНИЯ ГОСУДАРСТВЕННЫМИ ФИНАНСАМИ

Рассмотрены вопросы формирования и реализации стратегии развития системы управления государственными финансами Украины. Освещены особенности развития государственных финансов в зарубежных странах в посткризисный период и меры по обеспечению их стабилизации. Определены подходы к формированию нового, более качественного уровня управления государственными финансами Украины с учетом опыта стран — членов ЕС и особенностей развития нашей страны.

Ключевые слова: государственные финансы, устойчивость государственных финансов, фискальная консолидация, прозрачность государственных финансов, среднесрочное бюджетное планирование.

Public sector plays a vital role in the socio-economic development of Ukraine and constitutes 37% of GDP. Thus, public finance gain particular importance. After all, the country's sound financial system is critical for its financial stability, investment climate both in the country and in particular regions, stimulation of transformations in strategic sectors, resources of modernization, technical re-equipment, change of business line of existing enterprises and opening of new entities [1].

During the 2010-2013, the state of public finances in Ukraine demonstrated mixed trends caused by both internal and external factors. In 2010-2011, the volume index of GDP (percentage of the previous year) was respectively 104.1 and 105.2, but in 2012-2013 — 100.2 and 100.0. If the fiscal deficit in Ukraine in 2010-2011 decreased from 5.9 to 1.8% of GDP and public debt — from 29.9 to 27.4%, then in 2012-2013 the deficit increased respectively to 3.8 and 4.4%, while the public debt — from 28.3 to 33.0% of GDP [2].

Expectations of the world economic recovery and improving conditions on the global financial and commodity markets were not justified. During 2010-2013, a slowdown in economic growth was observed among OECD member states. In 2010 the real GDP growth rate (comparing with previous year) in the OECD area comprised 3.0%, but in 2011 — 1.9%, 2012 — 1.4%, and in 2013 — 1.2%.

During the last year recession affected economies of European Union States, with an economic decline of 0.4%. The largest real GDP reduction among Eurozone countries was observed in Cyprus (−5.4%), Greece (−3.9%), Italy (−1.9%), Portugal (−1.4%), Finland (−1.4%), Slovenia (−1.1%) [3].

In connection with mentioned above, the research of the public finances stabilization and ensuring their sustainability problems have acquired special importance [4-9]. During the economic crisis the trend of sharp increase in the deficit and general government debt amount emerged. They were resulted by strengthening risks of internal and external instability, macroeconomic imbalances, worsening conditions for the private investment, economic growth and employment. In order to solve these problems, stabilization mechanisms are actively developed and implemented by the government, displayed by the term “fiscal consolidation”.

The measures of fiscal consolidation facilitated decrease of the general government deficit to GDP in OECD countries from 8.0% in 2010 to 4.8% in 2013. Although this indicator remains significant in Japan (10.0%), Ireland (7.4%), Slovenia (7.1%), the UK (6.9%), Spain (6.7%), the USA (6.5%), Portugal (5.7%), and France (4.2%) [10].

It should be noted that over past years the EU countries experienced an impairment of public finance and its sustainability (due to accumulation of significant public debt, increase of risks of social program funding, and a downward trend in the financial state of public corporations). Excessive level of budget deficit and debt burden causes interest rates growth, suppression of investment activities and undermines macroeconomic stability [11, p. 18-20]. Adjustment of accumulated internal and external imbalances is expected to be a process of economic landscape formation for several years [12, p. 2].

The European Commission considers sustainability of public finance as a government’s ability to provide funding for current debt and expected future costs. In experts’ opinion, the concept of public finance sustainability, along with fiscal approach, includes a wide range of alternative theoretical and practical approaches. First of all, this concept expects the level of state public debt at which interest payments do not reach the size that cannot be paid. Thus, the stability of public finance reflects government ability to meet sovereign debt obligations on account of current and revenues (future budget surpluses) [13, p. 1].

Financial position of the country is unstable, if budget revenues are not sufficient to cover current expenditures and public debt service. Even if the government would reduce the debt to the original level, it is possible that at some point the debt will reach the size at which economic agents would consider it dangerous for the future purchase of government debt securities. Debt growth is usually accompanied by deterioration in key macroeconomic indicators over the medium term (lower economic growth, inflation rise, a decrease in reserves, etc.).

In order to strengthen the preventive and corrective functions, the Regulation of the European Parliament and of the Council No. 1175/2011 provided amendments the Stability and Growth Pact. They are aimed to strengthen coordination of economic and fiscal policies of EU member states by evaluation and monitoring the programs of national stability and convergence on behalf of the Council and the European Commission in order to prevent excessive general government deficit to sustain growth and employment within the EU [14]. Each participating Member State shall determine medium-term budgetary objectives for its budgetary position (within the euro area from –1% of GDP to a surplus of cyclically adjusted general government budget). Countries with debt levels far below 60% of GDP may reach structural deficit level within 1% of GDP.

The medium-term budgetary objectives shall be revised every 3 years in order to reflect the effect of structural reforms on sustainability of public finance. These objectives shall be included in the national medium-term budgetary limitations in accordance with Chapter IV of Council Directive 2011/85/EU of 8 November, 2011. Stability and convergence programs shall be based on the most likely macro-fiscal scenario or the most cautious (less costly) development scenario based on the latest updated Commission forecasts.

The Council Regulation No. 1177/2011 of 08.11.2011 introduced a new legislative framework for speeding up the implementation of set procedures under excessive general state deficit [15]. In particular, the role of the Council and the European Commission in monitoring the compliance with established procedures is increased. According to Art. 126 of the Treaty on the Functioning of the European Union, Member States shall avoid excessive government deficits. The European Commission monitors the development of the budgetary situation and of the stock of government debt in the Member States.

Council Regulation number 1177/2011 envisages that the excess of total government budget deficit the reference value shall be considered exceptional only when it is resulted from an unusual event outside the control of the Member State, or from a severe economic downturn. Also, this document established a new benchmark for gross government debt reduction. Henceforward, the gross sovereign debt of the euro area, where it is exceeding 60% of GDP, is decreasing sufficiently and is in a satisfactory pace approaching to the reference value, given its annual reduction by 1/20 compared to the average of the preceding three years. Also, sanctions are defined for failure to comply with these requirements (permanent component of the fine is 0.2% of GDP, the value of the variable component depends on budget performance of the general government) [15, p. 35, 39].

In order to strengthen economic and fiscal integration, on March 2, 2012, 25 EU member states signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (hereinafter — the Treaty) [16]. According to the Treaty, annual structural government deficit must not exceed 0.5% of GDP at market prices. This regulation regarding the maximum level of structural budget deficit should be included in the national legislation of the Member States.

The Treaty provides the creation of a centralized correction mechanism, which will be triggered automatically when exceeding the structural deficit limit of 0.5% of GDP. The benchmark for gross government debt remains at 60% of GDP. If it is significantly below 60% and risks of distortion of the long-term sustainability of public finance are low, a country can set a structural deficit at the level of 1% of GDP at market prices based on medium-term budget objectives (Article 3.1 of the Treaty).

Also, a coordination procedure of issuance of state debt obligation is established. Parties of the Treaty shall report on their plans of borrowing on capital market to the Council of the European Union and to the European Commission in order to improve the planning of national sovereign debt.

The Court of Justice of the European Union gained the power to impose sanctions on Member States in case of their failure to comply with the criteria established by the abovementioned fiscal pact. According to Art. 260 of the Treaty on the Functioning of the European Union, the Commission may refer the case to the Court. The penalty may not exceed 0.1% of GDP of the noncompliant country. If the violator is part of the euro area, the amounts imposed shall be paid to the European Stability Mechanism. In the case of penalties to other EU countries, payments shall be made to the general budget of the European Union. (Article 8.2 of the Treaty). From 1 March 2013, financial assistance in the framework of the European Stability Mechanism is granted in case of Treaty ratification (by the Member State) and transposition of the provisions of this fiscal Pact into national legislation.

According to the Regulation of the European Parliament and of the Council No. 473/2013 of 21.05.2013 the Member States in the euro area are required to provide general government draft budgetary plans to the Eurogroup and the European Commission (by 15 October). The Commission shall adopt a reasoned opinion on the draft budgetary plan (by 30 November), and request the particular country to provide a revised draft budgetary plan within three weeks from the date of the Commission’s reasoned opinion in the case of non-compliance with obligations under the Stability and Growth Pact [17].

However, these measures were not sufficient to ensure EU economic growth at global and national levels: the slowdown and instability in the economic and social spheres remain, affecting international markets. This has resulted in the deterioration of international trade environment and limited Ukraine's access to capital markets. The risks of trade balance deterioration (increased import and goods and services export lagging) have grown. In particular, the following developments were observed:

— reduced demand for domestic exports products due to low rates of economic recovery in foreign countries and increased competition in global markets;
— sustaining high energy prices for Ukraine;
— increased foreign exchange risks under instability of global financial markets;
— deterioration of conditions for capital inducement from foreign financial markets.

Taking into account the abovementioned, the program of improving the management of public finance of Ukraine should take into account a number of internal and external challenges that negatively affect its development.

Defined measures for improving public financial management (adoption of the Law on national strategic planning, approval of the Procedure for development and implementation of action plans for ministries — main regulators of state budget funds for the planned and subsequent two budget periods, enhancement of national target programs, development of draft legislation on state aid to economic entities based on the requirements of the EU and the WTO, and on amendments to the Budget Code of Ukraine on marginal loans under government guarantees; improvement of public debt management, and introduction of program-target budgeting at the local level) are envisaged.

To fulfill the objectives, it is necessary to create an appropriate public finance management system, able not only to solve the problems that may arise during its development, but also to minimize possible negative challenges, both internal and external. This calls for spurring the introduction of innovative mechanisms for strengthening the capacity of public finance sector, ensuring its stability and sustainability during the reform period.

The issue of enhancing public financial management has received much attention [18-20]. In particular, the Concept of Public Finance Management Development stresses the importance of further improving the efficiency of public finance management. The Concept drafts areas of the development of public finance management system for boosting its performance by improving legislative regulation of its components and enhancing coordination between governmental bodies implementing public policy in this domain. Its major provisions include: introduction of an effective budgeting mechanism, in particular for public debt management as part of public finance; definition of strategic development objectives including the state budget capacities in the medium term; ensuring transparency, predictability and consistency of fiscal policy by:

1) further development of program-target approach to budgeting;

2) improving the strategic planning system at the level of main regulators of budget funds;
3) monitoring implementation of legal acts on public internal financial control.

Particular attention is paid to the public procurement reformation and its improvement, especially related to increasing the efficiency of public procurement mechanism for goods, works and services by ensuring proper transparency and preventing discrimination in procurement procedures; ensuring optimal and efficient use of public funds; strengthening control over quasi-fiscal operations, which will allow to minimize risks on determining the state budget incomes. Facilitating the access to budgetary information by increasing the institutional capacity of government agencies gains a great importance.

In order to improve the management of public finance, the Strategy of development of public finance management system was approved [21]. Its main focus areas are:

— state fiscal policy;
— medium-term budget forecasting and planning, program-target method, strategic planning at the level of regulators of budget funds;
— management of liquidity of public finance and public debt;
— quasi-fiscal operations;
— accounting system in the public sector;
— public procurement system;
— public investment;
— public internal financial control;
— adequate external financial control;
— counterwork of corruption in public finance;
— public access to information on the issues of budget and public finance.

The Strategy is expected to achieve the following results:

1) establishing a public finance system focused on accelerating economic growth, and development of the real sector and realization of social programs;
2) enhancing the sustainability of public finance and ensuring stable financial development in Ukraine;
3) creating favorable environment to increase employment;
4) improving strategic planning of public finance (taking into account the financial activities of the general government and public corporations);
5) improving legislative acts which regulate the procedure of financial operations within general government sector (related to state strategic planning, deepening the correlation between strategic and budget planning);
6) ensuring the efficient use of program-target method for general government sector development planning;
7) implementation of medium-term budget planning aimed to enhance the performance of financial operations in public finance;

8) increasing the efficiency of public spending (within the general government sector) and expenditures of public corporations;
9) implementation of medium- and long-term strategy for management of government debt liabilities aimed to optimize state and sovereign state debt and to ensure the efficient use of resources mobilized through such mechanisms;
10) harmonization of public procurement system in accordance with the EU recommendations;
11) developing a competitive and efficient system for online procurement of goods and services and external audit system for procurement of goods, works and services for public funds;
12) developing an efficient and competitive system for the provision of state aid to business entities;
13) conducting general government's financial operations under the conditions of limiting pressure on budget system by enhancing control over quasi-fiscal operations;
14) strengthening financial discipline within general government and public corporations;
15) introducing a more efficient system of state internal financial control: ensuring prompt response to the facts (or a threat) of inefficient use of public funds and financial violations; introducing improved regulatory and legislative framework on internal audit in budgetary institutions;
16) application of financial monitoring measures in public finance;
17) monitoring and control of state aid to business entities;
18) modernization of legislation on public procurement, extension of access of domestic suppliers to European markets through the provision of mutual access to public procurement markets for suppliers Ukraine and the EU; application of new forms of public procurement;
19) increasing the transparency of transactions within the public finance system and creating necessary conditions for free access to public information on development of public finance for civic control, granted by state executive agencies;
20) achieving significant improvements in the prevention of corruption on state financial assets transactions based on the requirements of the State Program on Preventing and Counterwork of Corruption for 2011-2015.

Introduction of innovative approaches to public finance management will contribute to achieve positive results in Ukraine's consolidated state budget performance.

An improvement of government guarantees assigning mechanisms is envisaged. It should to be noted, that this instrument must be substantially updated and is aimed to use resource exclusively on revolving basis. Besides, one of the requirements is economical use of resources. The main criteria for selection of state-covered projects is self-sufficiency and reduced burden on the state budget. These innovations will enable government to reduce the burden on state and local budgets, to increase the resource base of the budget system, and to improve financial support for import substitution.

To enhance the efficiency of provision and application of government guarantees, the procedure of development project selection has been substantially modified. At the first stage, they will be considered and recommended for implementation by the main regulators of budget funds. At the second stage, they will be inspected by the banks involved into their implementation, as these institutions have sufficient capacity to carry out a qualitative assessment of feasibility study of each project. The third stage involves consideration by the Ministry of Finance of Ukraine and the working group under the Ministry of Economic Development and Trade of Ukraine. Finally, at the fourth stage a project is approved by the Cabinet of Ministers of Ukraine.

An improvement of public finance management also requires implementation of a tax policy aimed not only to form sufficient resources of public finance, but also to strengthen the regulatory and simulative functions of taxation. Tax reform is focused both on creating a favorable environment for business development and reliable financial background for the economy.

The issues of managing innovation formation and application of budgetary resources are becoming increasingly important. They include program-target approach to the formation and execution of the budget aiming to achieve specific planned results. It is anticipated, that this approach will be introduced at the level of both national and local budgets during public finance reformation.

The social security and social services system requires upgrading, in particular in the following important areas:

— standardization of social services provision by their types and categories of recipients taking into account customer selection criteria, compliance with the principles of targeting, accessibility and quality of services;
— creating a favorable environment for competition between the state and municipal agencies, and non-state actors;
— enhancing the efficiency of mechanisms for social services' targeting;
— gradual transition from budget financing to purchase of social services.

A key role in improving public finance management belongs to optimization the volume and improving the structure of public debt. Public debt management shall be focused on reducing the share of external debt (in the total amount of public debt). But it should be taken into accounts that the recovery of the cooperation with International Monetary Fund is an effective factor in maintaining the public finances sustainability in terms of economic fluctuations. During 2014, a tight fiscal discipline policy designed to limit budget deficit growth will be continued.

To ensure greater transparency of public finance there is a need to increase the transparency of budget expenditures; strengthen supervision over fiscal risks associated with the activities of public enterprises, institutions and organizations.

A qualitatively new level of control in the budgetary system anticipates transparency and confidence of the public in government through better understanding of its activities, creating favorable environment for social concord; improvement of cooperation of the state and local governments with the public; fast response to changes in the financial sector, predictability of decision-making results.

In order to improve public finance management, the Ministry of Finance of Ukraine takes actions to apply program-target approach in budget process, fiscal consolidation (under the condition of limiting its possible adverse effects), ensure sustainability of public finance, introduce medium-term budget planning, continue accounting system reformation, introduce internal and external audit in public sector, increase transparency and openness of budgeting process.

References

1. State program of intensification of economic development for 2013-2014: approved by the regulation of the Cabinet of Ministers of Ukraine of 27.02.2013, No. 187 [Electronic resource]. — Available at: http://www.kmu.gov.ua/control/publish/article?art_id=246247059.

2. The Ministry of Finance data.

3. http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115.

4. Fiscal Sustainability Report 2012// European Economy. — 2012. — No. 8. — P. 204; Report on Public finances in EMU - 2012 // European Economy. — 2012. — No. 4. — P. 34-43.

5. Fiscal Rules in Response to the Crisis — Toward the “Next-Generation” Rules. A New Dataset / Prepared by Schaechter A., Kinda T., Budina N., and Weber A. // IMF Working Paper. — 2012. — No. 187. — 48 p.

6. Kumar M., Baldacci E., Schaechter A., Caceres C., Kim D., Debrum X., Escolano J., Jonas J., Karam P., Yakadina I., and Zymek R. Fiscal Rules — Anchoring Expectations for Sustainable Public Finances // IMF Staff Paper. — 2009. — 16 December. — P. 14-19.

7. Fiscal Monitor. Fiscal Adjustment in an Uncertain World / World Economic and Financial Surveys: International Monetary Fund. — April 2013. — P. 72.

8. Tax reforms in EU Member States 2011 // European Economy. — 2011. — No. 5. — P. 77.

9. Fiscal Monitor. Taking Stock A Progress Report on Fiscal Adjustment. International Monetary Fund. Third printing (revised), December 2012.

10 OECD Economic Outlook No. 94 (database) [Electronic resource]. — Available at: http://www.oecd-ilibrary.org/economics/government-deficit_gov-dfct-table-en.

11. Alert Mechanism Report / European Commission. — Brussels, 2012. — 21 p. [Electronic resource]. — Available at: http://ec.europa.eu/economy_finance/economic_governance/documents/alert_mechanism_report_2012_en.pdf.

12. Alert Mechanism Report / European Commission. — Brussels, 2013. — 26 p. [Electronic resource]. — Available at: http://ec.europa.eu/europe2020/pdf/amreport2013_en.pdf.

13. Fiscal Sustainability Report 2012 / European Commission. — Luxembourg: Office for Official Publications of the European Communities, 2012. — VI, 204 p. [Electronic resource]. — Available at: http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-8_en.pdf.

14. Regulation (EU) No. 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No. 1466/97 on the Strengthening

of the Surveillance of Budgetary Positions and Surveillance and Coordination of Economic Policies // Official Journal of the European Union. L 306. — 2011. — November 23. — P. 12-24.

15. Council Regulation (EU) No. 1177/2011 of 8 November 2011 amending Regulation (EC) No. 1467 /97 on Speeding up and Clarifying the Implementation of the Strengthening Excessive Deficit Procedures // Official Journal of the European Union. L 306. — 2011. — November 23. — P. 33–40.

16. Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. — Brussels, 2012. — 24 p. [Electronic resource]. — Available at: http://www.eurozone.europa.eu/euro-area/topics/treaty-on-stability-coordination-and-governance-(tscg).

17. Regulation (EU) No. 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area // Official Journal of the European Union. L 140. — 27.5.2013. — P. 17, 19 [Electronic resource]. — Available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:140:0011:0023:EN:PDF.

18. On approval of the Concept of development of public finance management system: the Cabinet of Ministers of Ukraine of 03.09.2012, No. 633-р [Electronic resource]. — Available at: http://zakon4.rada.gov.ua/laws/show/633-2012-р.

19. On approval of Medium-term strategy of debt management for 2013-2015: the regulation of the Cabinet of Ministers of Ukraine of 29.04.2013 No. 320 [Electronic resource]. — Available at: http://zakon4.rada.gov.ua/laws/show/320-2013-п.

20. On approval of the Procedure of control of risks related to public (local) debt management: the regulation of the Cabinet of Ministers of Ukraine of 01.08.2012, No. 815 [Electronic resource]. — Available at: http://zakon2.rada.gov.ua/laws/show/815-2012-п.

21. The strategy of public finance management system: passed by the Cabinet of Ministers of Ukraine of 01.08.2013 [Electronic resource]. — Available at: http://zakon3.rada.gov.ua/laws/show/774-2013-р.