

Budgetary potential and budget planning system

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Abstract – The author examines the category of "budgetary potential", gives his own interpretation of the term, defines the types of budgetary potential and its structural components. Feasible link between the budgetary potential and budget planning is described. The need for evaluation of budgetary potential and its integration into the system of budget planning is emphasized.

Key words – budgetary potential, budget planning, public finance, financial potential, fiscal potential, structure of budgetary potential.

I. Introduction

Modern realities of economic development objectively require continuous improvement of mechanisms of economic relations. In market economy, leader is one who both promptly responds to changes in economic conditions and the most efficiently uses his own potential for development. However, we believe that the implementation of capacities is directly linked with the process of planning. Due to specified above there is a need to understand the essence of "potential", and that is why the answer to the question: "How are potential and planning interconnected?" is interesting to us.

Since our area of research is the area of public finance, we determine by means of projection of these concepts that the purpose of our study is determination of essence of the concept of "budgetary potential" and its interrelation and interdependence of budget planning.

Works of such Ukrainian scientists as V.Oparin, V.Fedosov, J.Pasichnyk, A. Luchko and others are

dedicated to the study of problems in the public finance sector in general and the issue of budgetary potential and/or budgeting.

II. Essence of budgetary potential

Economic category of "potential" (from the Latin Potentia - strength, power). In encyclopaedias the term "potential" is interpreted either as existing or hidden features [1, p.13].

A.Luchko under budgetary potential of financial independence of local governments understands the totality of the real possibilities of their autonomy in matters of creation, use and management of local budgets. All budget resources, i.e. funds that are collected and redistributed through the budget and budgetary powers of state and local governments are identified as its components [2, p.38].

Y. Pasichnyk has a point of view regarding the meaning of the budgetary potential that is somewhat different. The author suggests the term "fiscal capacity" to understand the real possibility of maximum use of the available resource potential budget system for a specified period of time [3, p.149].

However, analysis of the perspectives of different researchers on the concept of "fiscal capacity" gives us an opportunity to articulate our own positions. Thus, in our view, fiscal capacity is a part of the financial capacity of local government area (country, region, district, city, town, village) which is the total amount of currency units that can be accumulated from all sources in the budget of the administrative-territorial formation in a given period and under existing economic conditions.

Given the above, we consider it appropriate to identify the following fiscal capacity depending on the level of the budget system and the type of budget: state budgetary potential, budgetary potential of the region, district fiscal capacity, fiscal capacity of the city (village).

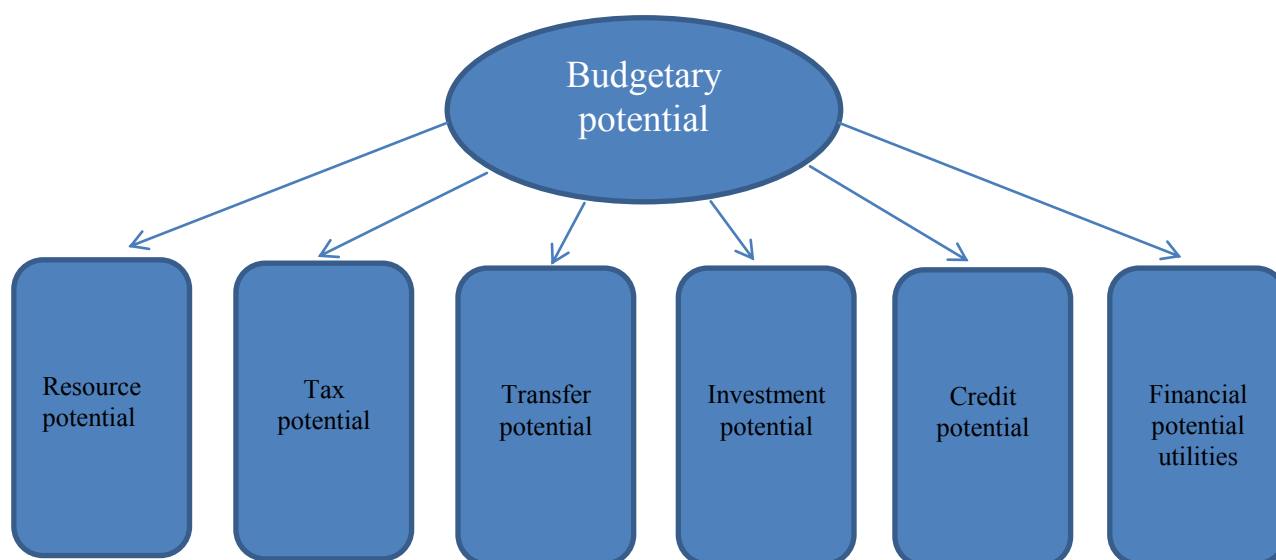


Fig. 1. The structure of the budgetary potential (own authoring)

At the same time we believe that the structure of fiscal capacity can be represented by the scheme (Fig. 1). As you can see from the picture the potential budget is formed by: resource potential (potential government revenues from resources available to the authorities), the tax potential (the tax capacity of the territory); transfer potential (subject to government revenues as transfers), investment potential (probable income from investment authorities, public-private partnership) credit potential (capacity to attract credit resources in the budget), financial potential utilities.

III. Relationship of budgetary potential and budget planning

Having defined our understanding of the category of "fiscal capacity", we note that it is closely linked with the concept of budgeting. To confirm our assertion, we note that we consider budgeting as a process that is carried out in several stages, and the end result is to create a budget plan.

The first step in budgeting is preparatory. At this stage, the analysis of the previous budget periods and development of a framework for the next budget period - forecasting of macroeconomic and definition of the objectives of fiscal policy for the planning horizon – are held. Responsible for the results at this stage are the National Bank of Ukraine, Ministry of Economic Development and Trade of Ukraine, Ministry of Revenue and Duties of Ukraine, Ministry of Finance of Ukraine, President of Ukraine, the Verkhovna Rada of Ukraine. The outcome phase is the forecast of macroeconomic indicators needed to create the project of budget, the budget resolution, budget targets in the message of the President.

The next step is to assess the needs and capabilities of the budget (including local) and spending units (development and analysis of budget requests), and formation of the draft budget for the planned year and the forecast for the next two fiscal periods on their basis. The end product of this stage is the budget plan approved by the Cabinet of Ministers of Ukraine and submitted to the Verkhovna Rada of Ukraine.

The third step is to consider the Law of Ukraine on State Budget Supreme Council of Ukraine and the President of Ukraine. The end result of this phase is the implementation of the new budget law.

The last stage of budget planning, as appropriate, is to develop an adjustment to the current budget plan (amending the law on the state budget). This stage includes the development of options for adjusting of fiscal performance, analysis of changes in budget indicators. The end result of this stage is the adjusted budget plan.

So after going through all the stages we ultimately have the final version of the budget plan, a "consensus" between the legislative and executive branches and the President; at the same time we have a reflection of the current fiscal policy. Also budget plan actually reflects the level of usage of budget capacity.

With that in mind it is crucial for budget planning to estimate the budget capacity.

Based on the understanding of fiscal capacity, in his estimation we mean determining the amount of currency units that can accumulate from all sources at its own budget administrative unit for a specific period and under existing economic conditions.

The assessment of the fiscal capacity is believed by us to be necessary to carry out during the second and fourth stages of budget planning when the baseline is being formed and capabilities of the budget process are being determined and are consistent with their needs.

We believe that the assessment of fiscal capacity should be integrated into the budget planning because it's possible to plan revenues of different levels on its basis, which, in turn, will perfectly complement a program-based budgeting method that provides quality planning expenditure.

Conclusion

As a result, the budgetary potential is an important economic category, which is closely related to budget planning. However, the assessment of budgetary potential, in our view, could be an important part of budget planning system and can provide more efficient management of public finances in general.

As a consequence of indicated above, there is a need for further study of the category "fiscal capacity" and development of methods for its estimation.

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