

ICPS newsletter

Budget should be a tool for achieving social goals

The main distinction between planned and market economies is not in the availability or absence of a plan, but in the approach to management of resources, i.e., managing large amount of various resources under the planned economy and managing money under the market economy. Making a presentation at ICPS's macroeconomic seminar, Mr. Janis Platais, IMF advisor at the State Treasury of Ukraine, noted that the budget is a tool for achieving social goals. The main conclusions of his report are presented below

The budget is the main financial document of a state. It is a plan balancing the necessity of achieving key social goals with available resources. The budget is a powerful state tool for managing social and economic processes. In Ukraine, the basic budget problems are the following:

- the Soviet Union handed down the assurance that the state would deliver all services; but under new circumstances it is impossible; the state role in the economy should be clearly determined, and a distinction between the state and market should be plainly drawn;
- fiscal policy objectives are weakly developed; there is no realistic comprehension of future results and advances;
- today, the budget planning horizon is

extremely short: if the state cannot completely fulfil its annual financial plan, budget planning scales down to one day, and the budget is amended every day;

- the structure of government bodies and relationships between the central government and local authorities do not promote qualitative budget management. Local authorities do not understand what resources are at their disposal;
- there is no tough restriction of budget expenditures, balance of budget resources and payments are not achieved. The government is often forced to introduce amendments into the budget because of unrealistic forecasts (see table).

An accurate differentiation of productive and nonproductive state expenditures is

Response to amendments of unrealistic budget forecasts

UNREALISTIC FORECASTS	AMENDMENTS
Unrealistic budget is approved	The Ministry of Finance approves a realistic budget schedule
Unrealistic budget schedule is approved	Expenditure restrictions are introduced into the budget schedule
Expenditure restrictions do not work	Amendments to budget expenditures are adopted every day
Daily budget management exceeds limits of available resources	The state resorts to emergency budget resources (money printing)

Last Week

Analytical and expert group evaluates draft laws. The analytical and expert group of the Coordination and Analysis Center for Ukrainian Business Associations, co-founded by the International Centre for Policy Studies, started publishing a weekly informational newsletter titled "Civic Arguments". The main aim of this publication is to present arguments and counter-arguments of civic business associations about the norms of draft laws with regard to the social and economic development of Ukraine.

Analytical and expert group may be contacted at e-mail: OIvashchenko@icps.kiev.ua

This Week

Barter problem in Ukraine. ICPS's macroeconomic seminar on "Analysis of the barter phenomenon in the Ukrainian economy" will be held on September 21. Participants will discuss the following questions:

1. Barter as a system of payment in a demonetised economy.
2. Barter in numbers.
3. Ways for solving barter problems.

Presentations will be given by Ms. Veronika Orlova, HIID Consultant, Mr. David Snelbecker, HIID Macroeconomic Policy Advisor, and Ms. Elena Besedina, HIID Intern-Consultant.

Improving the process of macroeconomic and fiscal forecasting. A quarterly seminar on "Co-ordinating Economic and Fiscal Forecasting with the Budget Process" will be held as part of ICPS's Center of Policy Excellence (budget policy)

project on Saturday, September 25. The objective of the seminar is to develop a strategy for improving the process of economic and fiscal forecasting in the context of Ukraine's budget process. Participants should produce a policy paper identifying:

- limitations and advantages of current approaches to co-ordinating economic forecasts and the budget process;
- recommended changes to current approaches to produce better budget outcomes;
- barriers to achieving these changes and potential solutions.

The following presentations are planned:

- Linking Economic Forecasts into the Budget Process: Key Issues (Paul Bruning, US Treasury advisor for the Ministry of Economy of Ukraine);
- Preparing and Coordinating Economic Forecasting (Vadym Pischeiko, Deputy Head of the Department of Economic Analysis, Ministry of Economy, Ukraine)
- The Ministry of Finance Perspective: Is Economic Forecasting Meeting the Needs of the Budget Process? (Maryna Shapovalova, Deputy Head of the Main Budget Department of the Ministry of Finance of Ukraine);
- Approach to Incorporating Economic Forecasts into the Latvian Budget Process (Solvita Zvidrira, Director of the Budget Department, Ministry of Finance of Latvia).

Next Week

New economic legislation. ICPS's macroeconomic seminar, devoted to the subject "New Economic Legislation: 1998–1999", will be held on September 28. Mr. Hlib Vyshlinsky and Ms. Tetiana Sytnyk, ICPS experts, will present the results of a survey of legislation determining conditions for business activity in Ukraine. This survey was conducted jointly by the International Centre for Policy Studies and the analytical-expert group of the Coordination and Analysis Center for Ukrainian Business Associations.

Concerning invitations for ICPS's seminars, please contact Larysa Romanenko. E-mail: LRomanenko@icps.kiev.ua

required. To achieve social goals it is necessary to identify priorities of state expenditures, with the aim of excluding those which are the least effective for society. The government should concretely define how much resources the state can allocate for achieving top-priority objectives, and compare results to expenditures.

The budget directly affects savings, investment, and interest rates. Thus, the amount of resources allocated for private sector lending depends on budget deficit size.

Fiscal policy is also closely connected with the national currency exchange rate. The National Bank is able to implement a stable monetary policy only if it has enough foreign exchange reserves. But if for external debt repayment the government resorts to the National Bank reserves, its capacity for maintaining the national currency exchange rate becomes weaker.

ICPS's macroeconomic seminar on "The Role of the Budget in Managing the Country" was held on September 14, 1999.

Draft 2000 budget: notable points

The Cabinet of Ministers of Ukraine submitted the draft law "On the State Budget of Ukraine for 2000" to the Verkhovna Rada on September 15. At the request of the ICPS Newsletter, Ms. Tetiana Sytnyk, ICPS economist, noted several distinctive features of this budget draft, as follows:

1. For the first time a budget with a surplus has been designed. *The necessity to adopt a positive budget balance is conditioned by sizeable foreign debt repayment obligations in 2000. The budget draft with surplus is the result of an understanding of the need for fiscal policy development in Ukraine. Good budget policy calls for long-term debt planning and the constant improvement of the quality of budget expenditures.*

2. In contrast to the budget drafts submitted in the previous years, the draft 2000 budget ensures greater transparency of the budget process and provides much more information to its participants. *The State Budget expenditures are listed in detail, including information about the state debt of Ukraine and a draft program for Ukraine's external public borrowing is presented for the first time for 2000. The main macroeconomic forecast indicators for economic and social development of Ukraine are also added to the budget draft and in the Information section about the degree to which the Verkhovna Rada Resolution "On the main directions of budget policy for 2000 (budget resolution)" is taken into consideration in the draft State Budget for 2000, the Cabinet of Ministers argues for and against the various requirements of the budget resolution.*

3. Since January 1, 1999 extrabudgetary funds of institutions and organisations supported by the state budget will be included in the State Budget as own revenues of these institutions and organisations. *Moreover, upon adopting the Law "On the State Budget of Ukraine for 2000", the Law of Ukraine "On sources of financing for government bodies" dated June 30, 1999 will come into force. Both measures will promote more transparency of using funds received by institutions and organisations from the State Budget for carrying out state functions.*

4. The draft law "On the State Budget of Ukraine for 2000" is designed on the basis of current tax legislation. *Along with the budget draft the Cabinet of Ministers submitted proposals for further development of Ukrainian tax legislation. In particular, the government proposes to adopt the laws "On personal income tax", "On immovable property (real estate) tax", and "On local taxes and levies" in their latest revisions, which will increase state budget revenues. At the same time the government proposes to centralise 20 percent of amortisation deductions of enterprises and organisations of all forms of ownership to the State Budget, but it contradicts current tax legislation. The Law "On corporate profit taxation" prohibits seizing enterprise amortisation deductions, which should serve as their own investment resources.*

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