

ICPS newsletter

Responsibilities and communication are basis for high-quality forecast

Macroeconomic indicator forecasting is a very important stage of the budget process. Realistic budget and its correspondence to social goals depend on the quality of state macroforecast preparation and reality. A strategy for improving the process of economic and fiscal forecasting in the context of Ukraine's budget process was the objective of ICPS's seminar on September 25

In Ukraine a draft of the main forecasting macroindicators of economic and social development for the next year and the nearest three years are developed by the Ministry of Economy jointly with other government bodies. The Ministry of Economy discusses a project with other organisations, including the Ministry of Finance and the National Bank of Ukraine first of all, after every stage. The final forecast is submitted to the Cabinet of Ministers by the Ministry of Economy, though other ministries-coexecutors should also approve this document. Actually, adjustment procedure erodes the Ministry of Economy responsibilities.

According to Mr. Vadym Pischeiko, deputy head of Department of the Economic Analysis of Ministry of Economy, the lack of legislative base regarding forecasting is one of the main problems. Mr. Pischeiko believes that it is needed to adopt a law on macroforecasting defining role and responsibilities of the Ministry of Economy as main coordinator of the forecasting process. Also this law should determine that macroeconomic forecast conducted by the Ministry of Economy is the basis for designing budget and Ukrainian economic and social development program.

Contrarily, Ms. Maryna Shapovalova, deputy head of the Main Budget Department of Ministry of Finance, argued that the process of macroeconomic forecasting is prevented

not by the lack of special legislation, but by the lack of coordination in the work of organisations engaged in the forecasting process. This problem can be overcome only through close coordination of the efforts of the Ministry of Finance, the Ministry of Economy and the National Bank at the technical level.

Seminar participants determined strengths and weaknesses of the forecasting process during group work. Process achievements are the following:

- departments, that are responsible for forecasting at macrolevel, have already been established in the government organisations;
- gradually the Ministry of Economy, the Ministry of Finance and the National Bank obtain experience and develop capacity for forecasting;
- communication between macroeconomic forecast coexecutors is being established;
- process becomes more transparent and forecast becomes more complete through involving independent Ukrainian and foreign experts.

Seminar participants noted the following macroforecasting process disadvantages that significantly affect budget process efficiency:

- insufficient communication between participants of the forecasting process at all levels;
- uncertain responsibilities of

Last Week

What are barter causes and ways for their solving? Consultants at the

Harvard Institute for International Development expressed their vision on barter problem in Ukraine. According to HIID experts, in Ukraine barter is caused by both macroeconomic and microeconomic factors. High interest rates, tax burden, state involvement into barter transactions, "Kartoteka-2" debt requisitioning system, unforeseen inflation, and unstable exchange rate are macroeconomic factors. As microeconomic factors experts of the Harvard Institute for International Development noted lack of liquidity caused by ineffective production and management, and creation of an opaque settlement system for price manipulations.

Economy barterization leads to lower payment transparency; price distortion followed by ineffective recourse allocation; increased transaction costs; declined tax revenues; arrears accumulation and support of loss-making enterprises.

Experts of the Harvard Institute for International Development believe, that ways for solving barter problem in Ukraine are the following:

- ban on barter settlements with the state;
- tight control of barter operations;
- bankruptcy of insolvent enterprises;
- development of attractive credit environment;
- easing of tax burden.

This Week

New economic legislation. ICPS's macroeconomic seminar, devoted to the subject "New Economic Legislation Influencing Business Activities in Ukraine: 1998–1999", will be held on September 28. Participants will discuss the following questions:

- approach to the analysis of changes in economic legislation;
- most important legislation changes influencing business activities in Ukraine;
- further actions that should be taken to improve economic legislation.

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.

Next Week

What exchange rate system is the most suitable for Ukraine? ICPS's macroeconomic seminar, planned on October 5, will be devoted to the subject "Into the year 2000 with a crawling peg system". Participants will discuss the following questions:

1. Which exchange rate system should be implemented? To which nominal anchor, exchange rate or possibly a monetary aggregate should preference be given?
2. How should the transition phase from the present system to a successor regime be implemented?

Presentation will be made by Gerhard Krause, expert at the German Advisory Group on Economic Reform to the Ukrainian Government.

Concerning invitations for ICPS's seminars, please contact Larysa Romanenko. E-mail: LRomanenko@icps.kiev.ua tel. (380-44) 463-5967

- forecasting process participants;
- political impact on the budget process;
 - lack of open forecast discussion at all process stages;
 - unavailability of complete information even for intergovernmental discussions.

According to seminar participants, today, macroeconomic forecasts do not provide a reliable basis for budget design because the government does not implement the economic policies, on which forecasts are based. That is why predictions have a declarative character. To improve the process of economic and fiscal forecasting coordination and communication between all participants should be strengthened. It is needed to organise the permanent work group dealing with preparation of economic development indicators at macrolevel and forecast discussion and evaluation. This group will involve representatives of the Ministry of Economy, the Ministry of Finance, and the National Bank. Regular and open discussions of government assumptions and forecasts with

independent experts and Verkhovna Rada representatives at all process stages will promote development of more realistic indicators.

Participants emphasized the necessity of clear authority and responsibility distribution among coexecutors. The Ministry of Economy as forecasting process coordinator should consider coexecutors' recommendations and try to find a compromise. To render maximum assistance to the Ministry of Economy in qualitative forecast development the Ministry of Finance and the National Bank should build an institutional capacity for forecasting indicators.

The quartile seminar on "Co-ordinating Economic and Fiscal Forecasting with the Budget Process" was held as a part of the ICPS's Centre for Policy Excellence (budget policy) project on September 25, 1999

The Latvian budget process is oriented on long term

Ms. Solvita Zvidriņa, director of the Budget Department of the Ministry of Finance of Latvia, gave a presentation on the Latvian experience in forecasting macroeconomic indicators in the budget process.

In Latvia the budget defines and substantiates amount of the resources needed by the government, governmental agencies and self-government bodies for implementation of the measures, financing of which is foreseen by legislation. The Latvian state budget is focused on the expected results and expenditure efficiency. The analysis of program implementation criteria and the analysis of the necessary funding for the program are devised for achieving this principle.

The development of forecasts of macroeconomic and fiscal indicators, including state budget revenues, is the first stage of the Latvian state budget development. The Department of Economy Analysis and Fiscal Policy at the Ministry of Finance, the Department of Economy Structural Policy at the Ministry of Economy, and the Bank of Latvia are involved in the process of forecasting macroeconomic indicators. The Ministry of Finance develops long- and medium-term forecasts of macroeconomic and fiscal indicators providing economic explanation for the draft budget. The Department for Forecasting and Financial Planning at the State Treasury devises cash flow plans on the basis of the forecast of the state budget revenues, expenditures and deficit, and actual performance analysis.

Today Latvia starts using new elements of the state budget planning, including gradual revision of existing state budget programs; long-term planning of the budget liabilities; planning of the foreign financial assistance resources in the state budget; and incorporation of the effective program indicators into the law on state budget.

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