

METHODOLOGICAL ASPECTS REGARDING THE EVALUATION OF THE FINANCIAL STABILITY OF THE BUDGET OF THE ADMINISTRATIVE UNITS

Ph.D. Cociug Victoria⁵²

Ph.D. Postolache Victoria⁵³

Abstract:

The modern paradigm of territorial development, according to which the territories should strive for economic growth on their own resources, is the self-development of socio-economic systems. At the same time, one of the most important factors for the self-development of the territorial economy is the sufficiency of the budgetary resources for the public authorities for the fulfillment of the functions assigned to them.

In this respect, the improvement of the methodological instruments of a comprehensive assessment of the financial stability of the budgets of the administrative units of the Republic of Moldova is of particular scientific and practical importance, which determines the object of this scientific article. Thus, the content of the study presents the methodological aspects for a comprehensive evaluation of the financial stability of the budgets of the administrative units of the Republic of Moldova.

Keywords: *public revenues, public expenditures, state budget, budget deficit, financial stability.*

JEL Classification: *H61, H71, H83*

Introduction

Today, many indigenous and foreign scientists, as well as information and rating agencies, are involved in researching the financial stability issues of various economic entities, including administrative units, to assess investment risks, determine the solidity and solvency of these entities.

Despite such increased interest in this issue, a unified scientific approach for determining and evaluating the financial stability of the budget of administrative units has not yet been developed.

In the existing approaches of scientists for characterizing the financial and budgetary sustainability of the component entities of the Republic of Moldova, the object of the research is their budgets, which analyze the budgetary resources and evaluate the budgetary sustainability, but there is no clear distinction between the concepts of financial and budgetary stability.

Thus, in Table 1 we will present a series of approaches to the notion of budgetary stability of the administrative unit.

⁵² Associate Professor, Academy of Economic Studies, Chişinău, Republica Moldova

⁵³ Associate Professor, Affiliation Balti State University "Alecu Russo", Faculty for Exact, Economic and Natural Science, Bălţi, Republica Moldova

Table 1

Conceptual approach to the notion of budgetary stability

Author	Definition Content
Poleak, G. [1 p. 680]	The level of stability of the territorial budget can be determined by the amount of funds necessary to ensure minimum, determinate budget expenditures, which means the funds provided for in the budget for financing constitutionally guaranteed measures for the life support of the population
Greaznova A.G. [2]	The state of the budget, in which the normal functioning of the subject of public authority is ensured, the implementation of all the powers assigned to it on the basis of full and timely financing of budgeted expenses, including repayment and servicing of internal and external debt
Karataev, S.M. [3, p. 44]	The likelihood of timely and complete coverage of the public authorities at the expense of their budget spending, provide the investment needs of the territory, as well as the repayment of debt and other liabilities and expenses on their service
Iyashvili, V.B. [4]	Adequacy of financial resources for the full implementation of all activities provided for in the budget when the actual volumes of budget revenues deviate from those provided for by the budget law
Doronina, T.V. [5, p. 47]	Current budget stability is such a movement of cash flows that will allow the population of the region to provide a decent standard of living that meets national social standards, and long-term sustainability is the most important sign of a development-oriented budget and assumes the long-term preservation of its characteristics in a balanced mode
Kankulova, M.I. [6, p. 30 - 31]	The stability of the budget system is the ability of all its elements using the mechanisms of mobilization and distribution of centralized monetary funds of the state to ensure the implementation of the declared goals without significant changes in the main parameters under the influence of negative factors
Kutsuri, G.N. [7, p. 81]	Budget stability is a system of interdependent economic relations based on the principles of profitability, flexibility, autonomy with a low level of volatility of state economic policy, which allows for the current and strategic socio-economic development of the state

Source: adapted by the author according to the sources mentioned in the table

In the above approaches, budgetary stability depends on the availability and sufficiency of resources or budgetary funds for timely and complete coverage of public expenditure by public authorities:

- for the implementation of the stated objectives, the repayment of the debt and other obligations and expenses for their service;
- to maintain a balanced budget in the future;
- to ensure the current and strategic socio-economic development of the state.

At the same time, criteria for achieving budgetary stability are not disclosed, such as the normal functioning of the subject of public authority and a decent standard of living that corresponds to national social standards, so it is not completely clear what is meant by these criteria and how they can be measured or evaluated.

In the American literature, in relation to public finances, the concept of fiscal sustainability is also used. As the foreign authors themselves have mentioned, there is no established method for determining financial stability in foreign literature [8, p. 21]. For example, A. Craidl in his study describes financial stability as follows: fiscal policy is stable if the present value of the future primary surplus is equal to the current level of debt [9, p. 27]. According to C. Burnside, the analysis of financial stability consists of the use of a simple set of tools for evaluating the government budget and its debt position, on the basis of which it is concluded that it is appropriate to apply the selected fiscal policy [10, p. 11]. LJ Kotlikoff, in an article on financial stability, notes

that if the tax burden of future generations is higher than they can bear, then fiscal policy is unbalanced and economically unstable, and the budget deficit is an indicator of long-term volatility [11].

Description of the problem

After analyzing the approaches to determining the financial stability existing in the foreign literature, we concluded that, in most of them, financial stability is defined as the ability of the government to finance current expenses, to ensure the implementation of fiscal and other policies in the absence of solvency problems, fulfilling the commitments made.

The multidimensionality of the category of "financial stability" consists, first of all, in the fact that it is closely related to other economic categories that characterize it. Among them, according to Russian scientist A.A. Nikiforova [12] should be highlighted financial security, flexibility, stability and development, but these categories do not fully reflect the essence of the financial stability of the administrative unit budget. From the position of a systematic approach, in addition to the listed features, the financial stability of the budget is also characterized by a relationship with the categories of "reliability", "strength" and "integrity", as it results from the information presented in Figure 1.

Thus, budgetary stability depends on how the revenue share of the budget is sufficient for the implementation of spending obligations, which depends directly on the rate of development and the degree of use of the potential of revenue of the territory, as budgetary income is the financial basis for the implementation of the socio-economic policy.

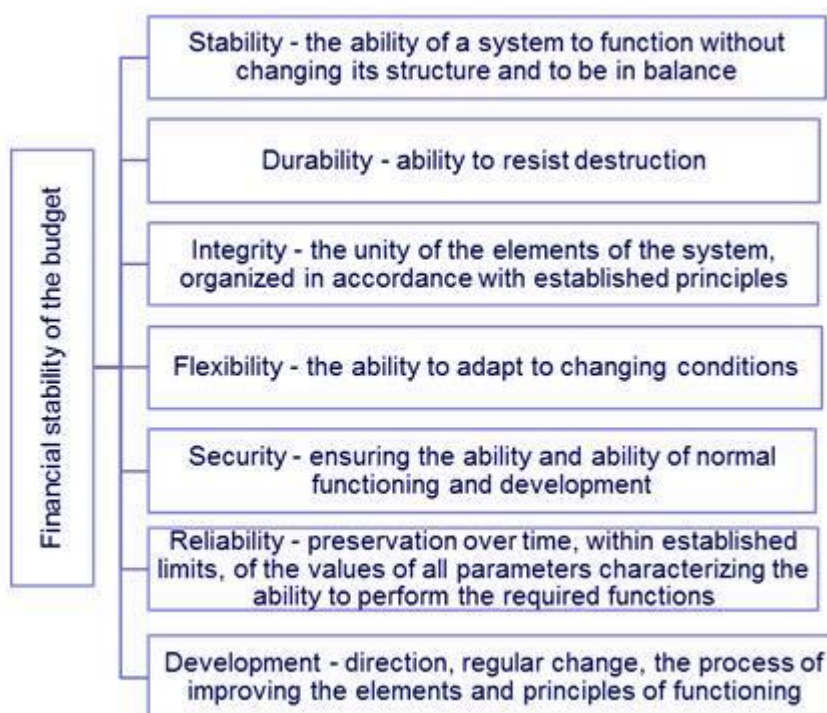


Figure 1. The relationship of the category "budget stability" with other economic categories

Source: elaborated by author

In the existing scientific papers, the attention of indigenous scientists is mainly focused on studying the problems of evaluating the budgetary stability of administrative units, while the concepts of financial and budgetary stability are identified. In this regard, an analysis of the methods for evaluating the budgetary stability of administrative units is needed, in which both calculation and heuristic methods are used.

The most used methods of analysis calculation are comparison (structural, temporal, dynamic, spatial, evaluation, basic), ordering (grouping, aggregation, balancing), economic and mathematical methods (details, chain substitutions, absolute and relative differences, correlation, regression, variation, etc.), coefficient analysis.

Methodology and data sources

In the scientific community, one of the first to resort to studying the problems of analyzing the stability of the budgets of administrative units is G. B. Poleac [1, p. 681]. The advantage of its methodology is the simplicity of the calculations, thanks to which the assessment of the state of the budgets of the administrative units is carried out objectively.

In order to evaluate the financial stability of the budgets of the administrative units, it is recommended to use the following budget indicators:

1. K_1 - the share of own revenues (tax and tax revenues, subsidies, subsidies) in the total budgetary income of the administrative unit, which is calculated according to the following formula:

$$K_1 = \frac{R_{own}}{R_{total}} \times 100\%, (1)$$

where R_{own} - own revenues (fiscal and non-fiscal revenues, subsidies) received from the budget of the administrative unit; R_{total} - the total amount of the revenues received in the municipality's budget.

K_2 - the coefficient to cover the expenses of the administrative unit with fiscal and non-fiscal revenues received from the budget of the administrative unit, calculated according to the formula:

$$2. K_2 = \frac{R_{current}}{Exp.a.u.} \times 100\%, (2)$$

where $Exp.a.u.$ - the budgetary expenses of the administrative unit; $R_{current}$ - the fiscal and non-fiscal revenues received from the budget of the administrative unit.

K_3 - the fiscal and non-fiscal revenues of the budget of the administrative unit per capita, are determined according to the formula:

$$K_3 = \frac{R_{current}}{Population} (3)$$

K_4 - the coefficient of financial independence of the budget of the administrative unit, is the ratio between the sum of the fiscal and non-fiscal revenues and the value of the budgetary transfers:

$$K_4 = \frac{R_{current}}{BT}, (4)$$

where BT - budget transfers.

K_5 - the coefficient of the balanced budget of the administrative unit, which is calculated according to the formula:

$$K_5 = \frac{D_{Deficit (Surplus)}}{Expenditure} (5)$$

The above coefficients and indicators were chosen based on the openness and accessibility of the data in the reports on the execution of the budgets of the administrative units and the possibility of a comprehensive quantitative assessment of the financial stability of the budgets. The composition of the coefficients used to evaluate the financial stability of the budgets of administrative units is not finally formed and can be supplemented by other indicators. In this case, a re-analysis of the correlation between the indicators will be necessary to determine the feasibility of including new indicators in the system for assessing the financial stability of the budgets.

For coefficients K_1, K_2, K_3 the financial stability index of the budget is determined according to the formula:

$$I_{sfb} = \frac{K_i}{K_{max}}, (7)$$

where I_{sfb} - the financial stability index of the budget; K_i - the value of the coefficient for the administrative unit i ; K_{max} - the maximum value of the coefficient between all administrative units.

For the K_4 and K_5 the calculation relation is influenced by the fact that the higher the values for these coefficients, the lower the financial stability of the administrative unit budget.

$$I_{sfb} = 1 - \frac{K_i}{K_{max}}, (7)$$

Accordingly, it is necessary to calculate an aggregate financial stability index of the budget for each administrative unit (IA_{sfb}) by summing the values of the financial stability indices of the budgets for each coefficient:

$$IA_{sfb} = \sum I_{sfb} K_n (8) [1, p. 682].$$

Results obtained

Assessing the financial stability of the budget of the administrative unit is a current problem not only for the Republic of Moldova but also for other states, which requires an integrated approach in the conditions of an economy influenced by the political power that is in government. Thus, in order to ensure an increase of the financial stability of the budget of the administrative unit, it is necessary to implement a set of measures that would ensure the correlation between public and private finances, as shown by those presented in Figure 2.



Figure 2. The main directions for increasing the financial stability of the budget of the administrative unit

Source: elaborated by author

As we know, the financial stability of the budget does not have clear boundaries for its development, so today the fundamental question is how the revenue potential of the administrative unit is realized and which directly affects their execution. A driving force that influences this potential, of course, are various factors that intervene in the formation and implementation of the financial stability of the administrative unit, presented in Figure 3.

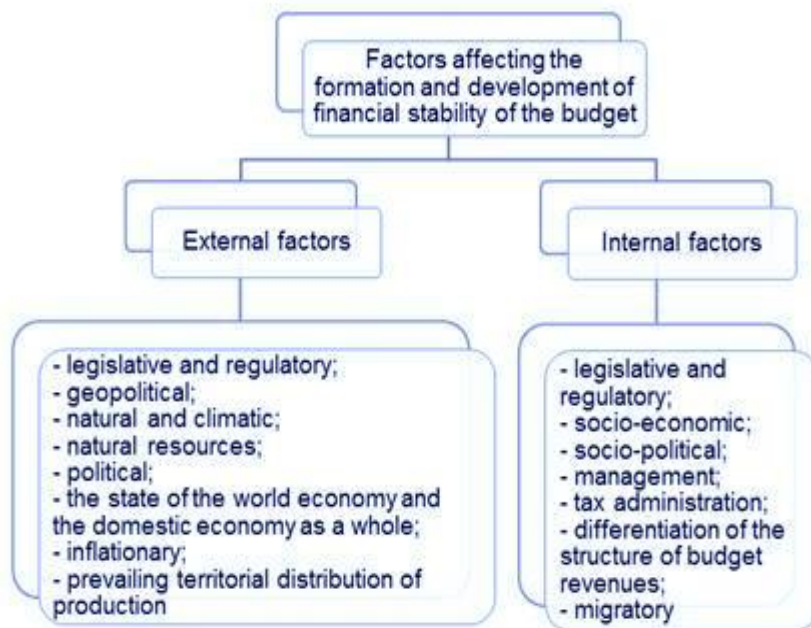


Figure 3. Factors affecting the formation and development of financial stability of the budget

Source: elaborated by author

The factors listed differently affect the revenue potential of the administrative unit and it is therefore necessary to determine the coefficients mentioned for each administrative unit separately and then to calculate the aggregate financial stability index of the administrative unit budget.

In the process of executing the revenues and expenses of the budget of the administrative unit, an important role is played by the timely assessment of the fiscal and non-fiscal revenues of the budget and the prevention of the excessive expenses. The main tasks of the authorities are to prevent a deficit in the budget of the administrative unit, as well as to identify the sources to cover the deficit in case of its emergence. In this respect, the importance of evaluating the budget implementation of the administrative unit increases not at the end of the financial year, but throughout the entire budget execution process. Only the operational financial analysis increases the possibility of high quality execution of the budget of the administrative unit as the budgetary execution of the expenses and of the income flows is completed.

Conclusions

In conclusion, we would like to mention that the practical implementation by the public authorities of the administrative units of the Republic of Moldova of the measures to increase the financial stability of the budget for its low-level administrative units can become one of the effective tools for monitoring the stability of the financial of the state budget. The financial balance and the stability of the budget indicate the effectiveness of the financial planning in the administrative unit. In addition, they determine the possibilities to carry out not only current financial activities by the local authorities, but also to cope with the debt burden in terms of paying the public debt, forming reserve funds and increasing the investment attractiveness of the administrative unit. In this respect, the analysis of the financial stability of the budget of the administrative unit is particularly important.

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