

purchase of certain products and the maximal prices for selling goods, works, and services.

Features of a concrete mechanism of public finances' functioning depend on the current situation in Ukraine.

this form lies in that the state, based on its financial opportunities, makes a competitive selection of the most expedient result-oriented projects. Projects that do qualify can be financed by bank credits and other funds (e.g. target investment loans). The amount of expenditures is fixed on the basis of special estimates specifying the cost of certain construction projects.

State allocations are targeted, non-repayable nonequivalent allocation of budgetary funds of centralized and decentralized sources to cover specific expenses. Budgetary allocations to institutions are determined by approved budgets thereof. The approved funds are allocated to institutions by financial bodies' opening credits in banks. Financial bodies transfer budgetary allocations for capital construction to banks which finance the construction.

Depending on economic significance, these methods of government influence possess certain characteristics:

Transfer payments are any direct payments from the state budget to individuals or enterprises in the form of subsidies, pensions, or social benefits, and payment of interest on the national debt.

Subsidies are financial support (direct or indirect), granted to people or self-financing enterprises and organizations. Direct subsidies include grants, state investments, and financial support to new forms of ownership; while indirect subsidies comprise preferential taxation, accelerated amortization policy and preferential crediting. Countries of a developed market economy make extensive use of subsidies to agricultural producers to compensate their losses incurred through foodstuff popular pricing policy.

Subventions are funds allocated from the state budget to local budgets. They are a kind of target subsidies, which ensure sharing of certain expenses by a recipient and the budget.

Stategrants are funds allocated to cover losses incurred by enterprises due to reasons beyond their control. Normally, they apply to state-owned enterprises. Private enterprises can get these grants if their losses are caused by a certain state policy, for example, in pricing.

Budgetary credits are a form of short-term financial support to state-owned enterprises on terms of repayment. This form is not typical of budgetary expenditures as the state's relations with legal persons are built, for the most part, on a non-repayable basis. Unlike bank credits, budgetary credits are given on preferential terms, at lower interest rates, and for a longer period.

Covering price gap describes income or profit loss compensation from the budget due to the state's fixing prices for certain goods and services. The scope of this measure is determined by the sphere of state price control. The difference in prices occurs due to fixing both - the minimal prices for

shows the role of the state in settling the vital issues of social life. The purpose of budgetary expenditures points at a specific type of expenses: capital investments, capital repairs, operating expenses, wages etc. Such a classification makes it possible to exert financial control over purpose-oriented use of budgetary funds.

The underlying basis for budget expenditures *industrialclassification* is the economy's division into branches and types of activity. The expenditures are grouped according to industries: manufacturing industry, agriculture, building, transport, communication, education, health care, culture etc.

Departmentalclassification enables to determine direct administrators of budgetary funds within each group of budgetary expenditures – a ministry, state committee, state department or other legal person authorized to get allocations from the budget. Such grouping of expenses ensures a specific-purpose financial control over the use of budgetary resources.

Depending on the level of management, with account of the country's administrative-territorial division, budget expenditures of unitary states are divided into expenditures of the central budget and those of local budgets; while in the countries of federative structure – into expenditures of the federal budget, those of federation subjects budgets, and local budgets expenditures.

According to *forms of financing*, budgetary expenditures fall into the following categories:

Operating-budget financing is the major form of financial provision of production and social infrastructure, fundamental science, defense, and administration. Budgetary funds are allocated based on a special document – an operating budget where quarterly amount of budgetary funds and itemized expenditures are given. The amount of budget financing is determined on the basis of operative-network indices characterizing the volume of an enterprise's activity, and established (or estimated) cost standards. They are the main element of operating-budget financing, since they determine the amount of budgetary expenditures. From the standpoint of budget institutions, it is a form of targeted non-repayable and nonequivalent financing. Employees of those institutions get their primary income in this way. From the perspective of social services consumers', they are the so-called free services characterizing the secondary incomes of these consumers.

Budget financing of investment projects means government provisions of capital investments in manufacture. Fund allocation in the form of financing a concrete investment project can be made to individual enterprises, ministries, or departments. Budgetary investments can also be directed to purchasing a batch of shares of some joint-stock companies. The essence of

budget division into two parts: current and capital. **Current expenditures** serve to supply legal and physical persons with budgetary funds in order to cover their current needs. This kind of expenditures include: purchase of goods and services, necessary to maintain economic and social infrastructure (civil servants' remuneration, procurement of goods and materials of economic appropriation, transportation and utilities payments etc); public transfers (pensions, scholarships, allowances and other payments); current subsidies to state and private enterprises, as well as to lower-ranking authorities; interest payment on the national debt etc. These are state and local budget expenditures on financing enterprises, institutions, and organizations, which are in operation at the beginning of a budget year, as well as on social protection and other actions, not classified as development expenditures. In aggregate, current expenses form current budget, which comprises the main part of all budgetary expenditures.

Capital expenditures pertain to financing the society's development.

Development expenditures are investment and innovation expenses from the state and local budgets, in particular: production and non-production capital investments; financing of the national economy re-structuring; subsidies and other kinds of expenditures related to expanded reproduction.

An important criterion for the budget expense items classification is *targeting* of cash flows. Thus, in the developed countries budget expenditures are ascribed to financing five main target groups: the military; government interference in the economy (including expenditures for scientific research and research-and-designing work, support to agriculture, guaranteed employment, export incentives); state machinery; social sphere (education, health care, social insurance and social security); subsidies and credits to other countries. In terms of targeting, the Ukrainian budget expenditures are divided into those meeting the needs of: public administration; national defense; fundamental and applied research; law-enforcement and national security; international affairs; economy; socio-cultural institutions and events; national debt servicing; reserve fund creation; other expenses and payments.

Organizational grouping of budget expenditures is connected with their allocation to specific government programs. For example, in Ukraine government programs of support to regional development and priority industries, transport development, road and track facilities, communication, telecommunications and informatics, government investment projects, state programs in sport and rehabilitation of disabled people, and others. Classification of budget expenditures according to program criterion is used when the budget is formed by the program-target method. This classification

to subjects of activities.

2. The method of budgetary funds transfer from running accounts of local budgets to accounts of main administrators of budgetary funds. The sense of it is in financial institutions' transferring budgetary funds to main administrators' accounts in accordance with the estimated government expenditure sheet.

To clarify the role and meaning of budgetary expenditures for the country's socio-economic life, a classification of budgetary expenses was developed by financial theorists and practitioners. One of the key features of that classification is its functional nature, the budgetary funds allocation being shown related to specific state functions.

The functional division of expenditures reveals proportions of budgetary funds allocation, a change of which makes it possible to achieve the necessary improvements in the industrial structure of social production. To strengthen a social trend of the society's development, more budget funds are channeled to the social sphere accelerating its growth.

Table 1

Interconnection between state functions and public expenses

State functions	Public expenses
Administrative	public administration; judicial authority and public prosecutor's office; law-enforcement authorities and national security service; fiscal and customs authorities; foreign affairs
Defense	national defense (expenses of Ministry of Defense, National Guards, Border Troops, Civil Defense Headquarters, training organizations of associations rendering assistance to defense of Ukraine etc)
Social	social protection and social security (adjustments of income and wage rates of government-financed organizations employees; children allowance payments; pensions and compensation payments to military personnel families; maternity and child care funds; low-income groups support); social sphere (education; staff training; culture; art; mass media; healthcare; youth programs; physical education and sports)
Economic	economic activity of the state (capital investments; financing enterprises renewal; growth of consumer and industrial goods output etc.); fundamental research

In terms of their role in social production, expenditures are classified as current and development ones. In certain cases, it is fixed formally in the

sphere and social needs, public administration, defense, and other national tasks form the material basis of budgetary expenditures. Every budgetary spending has its quantitative and qualitative characteristics. The quantitative characteristic relates to amount of allocated budgetary funds. The qualitative description gives an idea of the economic nature as well as social purpose of each type of budgetary expenditures. Budgetary expenditures reveal the state financial policy in the spheres of public administration, creating incentives for production, financial support to social security, scientific and technological progress, and foreign policy. That is why the list of expenses and their economic structure undergo a continuous change, dependent of a specific situation.

From the standpoint of usage of the funds accumulated in the budget, its expenditures can be divided for convenience into two groups – government take and budgetary financing of legal and physical persons.

The government take is expenditures spent on the upkeep of the state apparatus – legislative, executive, judicial, and the Army. The budget revenues are formed of public payments to the state for administrative services, national defense and legal order. *The budgetary financing* reflects the process of income redistribution within the society: build-up of secondary and sometimes primary incomes of legal and physical persons. It can be direct and indirect. Income formation of budgetary allocation recipients, i.e. budget funds administrators, is of direct nature, while that of public goods consumers supported by the budget is of indirect character.

Organizational structure of state expenditures is based on the following principles:

- targeted irrevocable financing;
- pursuing the policy of economy, efficiency, and profitability.

Budget funds are spent with strict orientation to purpose and within the limits approved by an appropriate enactment – a state budget law or a decision of a local council of people's deputies. Legal acts on budget cannot contain items of expenses which are not stipulated by the active legislation.

The system of state expenditures is intended to ensure a rational allocation and effective use of the state funds. It characterizes the state policy of financial support and the country's socio-economic development.

At present, two methods of budgetary financing are used:

1. The method of an integrated treasury account. This method is applied to finance activities from the state budget of Ukraine. It is a system of the Treasury bodies' budget accounts opened in banks on the appropriate balance accounts. From these, the Treasury makes payments directly

being one of the leading parts of the public financial system, reflects productive relations, reproduces relations of distribution, mediates the movement of money supply, and often represents numerous diametrically opposite interests. The state budget has always been compromise and representative of forces correlation between main carriers of different socio-economic interests in the country, and namely a trade-off between: owners and employees as to property taxation, incomes, wages, and budgetary expenditures for social purposes; national and local interests; industrial and agricultural regions as to taxes and budgetary grants distribution, guidelines of the state policy of territorial structure; interests of some industries and companies as to taxes and subsidies, preferential crediting of government orders, construction contracts, and investment allowances.

With transition of the Ukrainian economy to market management, the state budget has acquired new vectors for centralized-fund assets movement, which did not exist under the command administrative system. Thus a number of expenditures are shifted to extra-budgetary, social and economic funds formed with special in payments or assignments and being direct or indirect taxes by their economic nature. Occasionally, state grants for fulfillment of the fund's commitments are entered here, too. The funds supplement the state budget to some extent, but their use is always purpose-oriented. Special extra-budgetary funds perform several functions supplementing the state budget in management of the economy, in particular: they are used for special purposes independent of the budget position – even under the state budget deficit. The expenditures of such funds cannot be reduced as they ensure fulfillment of important tasks of state regulation of economic development (road construction and maintenance, etc), and provide social guarantees.

The development of public expenses is of an objective nature. They are used to carry out tasks which are financed – entirely or partially – without the use of the market mechanism. These include: regulation of economic and social processes, structural reconstruction of the economy, environmental protection, demonopolization, granting budgetary loans, foreign policy and foreign-economic activities, state external debt servicing, national defense, consumer rights protection, financing of public goods, formation of social security and social insurance systems, financing education, staff training and re-training, providing healthcare and other social services.

Budgetary expenditures are funds spent by the state in the process of its financial activity, which are used for industrial, special, and territorial purposes.

Funds directed by the state to finance the national economy, social

- to determine opportunities for financial resources growth based on efficiency of economic management;
- to increase the impact of financial mechanism on optimization of resource use;
- Substantiation of the limits to financial resource centralization in the state budget and other elements of the financial system.

The consolidated financial balance statement contains financial resources that are created and used in all sectors of the economy regardless of the form of ownership, as well as voluntary and compulsory payments made by individuals, long-term bank credits, and foreign-economic activity revenues. The balance shows the total amount of expenses by business structures, the state, and other financial institutions. However, the main function of the balance statement is information support to the process of making up consolidated budget of the state, state budget, and local budgets.

The other important constituent of public finances mechanism in Ukraine is public expenses, which are represented by assets spent from centralized and decentralized funds, as well as funds of set purposes, to finance state activities (public administration needs), meet commitments undertaken by the state, guarantee public benefits and goods; their distribution is carried out for special, industrial, and territorial purposes.

Public expenses are economic relations brought forth by state funds allocation and use according to intended purposes. Public expenses regulation takes place at the state, regional, and local levels.

A considerable amount of public expenses of certain types is explained by several factors such as: the nature and functions of the state, level of the country's socio-economic development, the state's administrative and territorial structure, forms of budgetary funds allocation, etc. The combination of these factors brings forth the system of state budget expenditures and extra-budgetary funds of Ukraine.

However, in the recent years the country's socio-economic development has changed the system, structure and classification of expenditures in a cardinal way. The command administrative methods of management proved that the budget was surcharged with expenditures resulting from the state's economic function. The budget does not perform its social function, which in the developed countries consists in providing welfare. Therefore the reform of the Ukrainian management system should focus on the state's performing its social function – through the budgetary funds distribution.

Forming public expenses, it's worthwhile to remember that the budget,

(gold reserve, public domain etc.)

All the sources of the state income can be divided into internal and external.

The internal sources include the national income and national wealth created within the country.

The external ones comprise the national income, as an exception, and the national wealth of another country if they are gained in the form of state loans or collected as reparation payments.

The main methods of state income mobilization are taxes, state loans and note-issue.

The correlation of the three methods differs in different historic periods and depends of a number of factors (e.g. fiscal policy, economic situation, extent of social antagonism).

There is also a correlation between taxes and state loans which is explained by the fact that taxes play the role of the financial base for loan repayment. The growing expenses of the state redeeming loans and paying interest on them cause an increase in taxes; and vice versa – a reduction in taxes, as a rule results in the need for new loans.

Issue of money is the last resort of the state when the first two methods fail to produce the necessary amount of earnings, since it provokes inflation.

The state applies the abovementioned methods of funds mobilization when it forms budgets of different levels.

Centralized state funds are created through taxes and tax payments – money emission is not used for this purpose. A wide use is made of various kinds of in payments, voluntary contributions, etc. As a result of the recent privatization, state funds have been increased to some extent due to sale of state property, and it's leasing as well.

On the whole, the amount of state financial resources depends on the size of the gross domestic product, its inner structure, and dynamics of its components. Correct and scientifically substantiated forecasting of amount of financial resources and trends of their application is one of the main prerequisites to improved effect of finances on economic and social development of the country.

With that aim, an annual balance of the state's financial resources and expenses is made up. It is a system of indices characterizing the amount of finances created and spent by the state over a certain period of time. The main functions of the balance of financial resources and expenses are as follows:

- to ensure consistency of cost and natural parameters of resources according to their origins and applications;

financial resources for its needs through taxation and charges. The resources are spent by state allocations for various measures of nation-wide importance that is defense salaries of power bodies and administration staff, public order, environment preservation, rendering free services of education, health care, profession training and social security payments.

Nowadays, the state still owns a considerable part of the country's means of production, which determines its leading part in the financial relations system connected with financial resources formation, allocation and use.

State incomes are represented by the part of financial relations, which, in the budgeting process, stays at the disposal of the state and state-owned enterprises.

While the financial resources accumulated by the state are centralized, those at the disposal of enterprises are decentralized. The former are built up mainly through taxation, foreign-economic activity revenues, public payments; the latter – due to enterprises proceeds.

Public revenues take the principal place in the structure of centralized state incomes. Centralization of a considerable part of state incomes within budgets of different levels gives an opportunity to pursue a unified financial policy, to effect redistribution of funds in favor of progressive industries and businesses, which makes it possible to meet almost equally the demands of nonproductive sphere, regardless of the territory of its functioning.

Therefore, the main part of financial resources corresponds to the net income value in money terms, created in the state. These are profit, assignments to state centralized funds of set purposes, foreign-economic activity revenues.

The next constituent of financial resources is part of consumption fund, which is redistributed with the help of finances. It is comprised of direct and indirect public taxes, including income tax, value-added tax, excise tax, land tax, transport tax, local taxes and dues.

The third part of financial resources is formed by various charges, which are built in production cost. Those are depreciation charges, allocations for geological prospecting, water charges, etc.

Thus, the object of fiscal relations associated with the concept of state incomes is the value of gross domestic product which at different stages of distribution appears in different financial forms (at self-financing enterprises, these are proceeds, profit, deductions to social needs; the object of budget relations – profit and wages; the object of state-credit relations – available assets of enterprises and people).

The major source of state income is the National income; however in certain cases, especially in emergencies, it can also be the national wealth

Organization of Public Finances Functioning in Ukraine

Andrii DIEGTIAR

Doctor of Public Administration, Full Professor,
Kharkiv Regional Institute of Public Administration of
the National Academy of Public Administration
attached to the Office of the President of Ukraine

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Public finances are an important economic tool of state intervention in the processes of expanded reproduction, distribution and redistribution of gross domestic product. Using them, a state can actively influence a country's economic and social development of in a positive or negative sense. Being of objective nature, they depend considerably on subjective actions of political forces that are in power.

Today in Ukraine, the sphere of public finances accumulates the most acute problems of a state's economic and social life i.e. e. budget deficit and state debt, taxation and budget expenditures efficiency, local finances state, problems of inter-budget relations, etc. Thereby, the problem of organization of public finances effective takes on special significance. It looks like the problem in question is urgent not only for Ukraine, but also for Algeria.

Public finances functioning involve two closely connected processes:

- Mobilization of financial resources at the disposal of the state;
- spending of the accumulated funds for different state needs.

The first process is reflected in *public income*, while the second process – in *public expenses*.

Forms of resource mobilization can vary. Thus, the state obtains