

**MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE**  
**YURIY FEDKOVYCH CHERNIVTSI NATIONAL UNIVERSITY**

**BUDGET SYSTEM**

Textbook

(for a practical training and self-instruction by foreign students)

**Chernivtsi - 2021**

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The textbook corresponds to the educational and professional bachelor's program in the field of knowledge 07 "Management and Administration" specialty 072 "Finance, Banking and Insurance". It presents the structure of the discipline "Budget System", provides tasks for work during seminars and practical classes, including questions to prepare for classes.

Designed for foreign students of higher education institutions who intend to increase their knowledge in the field of finance.

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## 1. DESCRIPTION OF THE DISCIPLINE

Names of content modules and topics	Number of hours			
	Total	including		
		lectures	practice	home study
Topics of lectures	Content module I. The essence, purpose and role of the budget			
Topic 1. The essence, purpose and role of the state budget. Budget planning	24	8	8	8
Topic 2. Budget structure and construction of the budgetary system of Ukraine	8	2	4	2
Topic 3. System of budget revenues	8	2	4	3
Topic 4. System of budget expenditures	9	2	4	5
Topic 5. Inter-budgetary relations and the system of budgetary equalization	9	2	2	5
Total for content module I	58	14	22	20
Topics of lectures	Content module II. Expenditure planning of budgetary institutions			
Topic 6. Budget deficit	9	2	2	5

and sources of its financing				
Topic 7. Budget expenditures for servicing public debt	9	2	2	5
Topic 8. Budget expenditures on social protection of the population and social sphere	29	8	16	5
Topic 9. Budget expenditures for economic activity and science	8	1	2	5
Topic 10. Budget expenditures on defense and management	7	1	1	5
Total for content module II	62	14	23	25
<b>Total hours</b>	120	30	45	45

## TOPIC 1. THE ESSENCE, PURPOSE AND ROLE OF THE STATE BUDGET. BUDGET PLANNING

### *1. The essence of the state budget*

A government's forecast of revenue and planned expenditure is laid out in its budget, usually produced on an annual basis. The budget is enacted into a law by the legislature, which authorises the government to spend funds in accordance with a set of appropriations. Usually, a collection of PFM laws and regulations further regulate how the approved budget should be executed.

**Budget** is a plan to form and use financial resources in order to fulfill the tasks and functions performed, correspondingly, by the government bodies, government bodies of the Autonomous Republic of Crimea, and local self-governments during the budget period.

### *2. Budget content*

An effective budget pursues three (partially competing) objectives: maintaining fiscal discipline, allocating resources in accordance with policy priorities and efficiently delivering services, or 'value for money'. Budgets should be comprehensive, transparent and realistic. In order to promote these objectives, a budget should contain the following elements: a macroeconomic framework and revenue forecast, a discussion of budget priorities, planned expenditure and past outturns, a medium-term outlook and details on budget financing, debt and the government's financial position.

### *3. Composition of Budget Legislation*

Countries tend to have legislation and regulations that specify how the budget document should be prepared and what information it must contain. While some

rules and practices differ between countries and continue to elicit lively debate, a fairly extensive body of ‘best practice’ has emerged with time.

Budget legislation of Ukraine includes:

- 1) Constitution of Ukraine;
- 2) the Budget Code of Ukraine;
- 3) the Law on the State Budget of Ukraine;
- 4) other laws regulating budget relations, as stipulated by Article 1 hereof;
- 5) regulations of the Cabinet of Ministers of Ukraine adopted based on and in pursuance of the Code and other laws of Ukraine;
- 6) regulations by the executive authorities adopted based on and in pursuance of the Code and other laws of Ukraine and regulations by the Cabinet of Ministers of Ukraine;
- 7) decisions on local budget;
- 8) decisions of the authorities of the Autonomous Republic of Crimea, local state administrations, and local self-governments adopted based on and in pursuance of the Code.

#### ***4. Budget Components***

Budget may be composed of general and special funds.

The components of the general fund of the budget include:

- 1) all budget revenues except those to be added to the special fund of the budget;
- 2) all budget expenditures made against the revenues of the general fund of the budget;
- 3) loans of the budget (repayment of loans to the budget without specifying their purpose, and issuing loans from the budget against the revenues of the general fund of the budget);
- 4) financing of the general fund of the budget.

The components of the special fund of the budget include:

- 1) budget revenues (including revenues of government-funded institutions) intended for a specific purpose;
- 2) budget expenditures made against the specifically defined revenues of the special fund of the budget (including revenues of government-funded institutions);
- 3) loans of the budget (repayment of loans to the budget specifying their purpose, and issuing loans from the budget made against the specifically defined revenues of the special fund of the budget);
- 4) financing of the special fund of the budget.

### ***5. Budget preparation***

Preparation of the budget usually takes many months and involves all public institutions: the Ministry of Finance manages the process, the Cabinet/President sets or approves the policy priorities, line ministries plan and advocate for their resource needs and the legislature reviews and approves the final plan. Preparation is at the heart of the political process: it is the decision on how to allocate the state's limited resources to competing demands.

A successful budget preparation process combines top-down direction and bottom-up planning. The overall budget envelope and sector/ministry spending ceilings are usually set by the Ministry of Finance and the Cabinet/executive in accordance with policy objectives. These are then communicated to the line ministries, which are responsible for preparing their respective sector budgets. Through an iterative process of review, debate and bargaining, a consolidated budget is hammered out. A budget proposal is then presented to the legislature, where it is debated and negotiated with the executive and eventually passed into law.

In past decades, there have been various innovations in budget formulation, with the aim of increasing the allocative and operational efficiency of budgets. These ideas and practices warrant special attention, as there is still a considerable debate among PFM specialists about whether, when and how implement them.



## ***6. Budget planning***

Programme budgeting is a method of organising and classifying the budget according to programmes with shared objectives, instead of along administrative and input lines. Programme budgeting has proponents who argue that a programme approach correctly focuses attention on outcomes rather than inputs. Its opponents argue that it makes the process more complex and weakens accountability.

Responding to concerns that Public Financial Management (PFM) systems encourage a bureaucratic adherence to rules rather than a pursuit of results or outcomes, many governments have experimented with budgets that set performance incentives. Approaches range from radical attempts to outsource government functions against performance contracts to incremental efforts to consider performance objectives and indicators in the budgeting process. While PFM experts generally agree that a performance orientation is desirable, whether and how to incentivise performance through the PFM system is a subject of great debate.

## ***7. Budget process and its participants***

The following are recognized as stages of the budget process:

- 1) drawing up draft budgets;
- 2) deliberating the draft and adopting the Law on the State Budget of Ukraine (decision on the local budget);
- 3) executing the budget, including introducing changes to the Law on the State Budget of Ukraine (decision on the local budget);
- 4) drawing up and deliberating a report on budget execution and making the corresponding decision.

All stages of budget process include control over the compliance with the budget legislation, audit and assessment of efficiency of managing budget funds according to the legislation.

The participants of the budget process are bodies, institutions, and officials possessing budget permissions (rights and obligations related to managing budget funds).

### ***8. Breakdown of the State Budget of Ukraine***

The State Budget of Ukraine shall be executed in accordance with the breakdown approved by the member of the Cabinet of Ministers of Ukraine responsible for the formulation and implementation of the State budget policy or a person discharging his/her duties, in line with the budget allocations within a month's term after the adoption of the Law on the State Budget of Ukraine.

Before the breakdown of the State Budget of Ukraine is approved by the member of the Cabinet of Ministers of Ukraine responsible for the formulation and implementation of the State budget policy or a person discharging his/her duties, a provisional breakdown of the State Budget of Ukraine shall be approved for the respective period. A copy of the approved breakdown of the State Budget of Ukraine shall be handed over to the Accounting Chamber and the Budget Committee of the Verkhovna Rada of Ukraine with subsequent communication of amendments made to it caused by amendments to the Law on the State Budget of Ukraine.

The central executive body, which ensures formulation of the State budget policy, during the budget period, 53 shall ensure the compliance of the breakdown of the State Budget of Ukraine with the established budget allocations, as well as the compliance of the distribution of budget appropriations to the key spending units under the general fund of the state budget according to the periods of the year determined by this breakdown to the respective projections of revenues of the general fund of the state budget during the budget period.

### ***9. Control and Audit in the Budget Process***

Control over the compliance with budget legislation is aimed at ensuring effective and efficient management of budget funds and is exercised across all stages of budget process by its participants according to this Code and other legislation.

In addition, control ensures:

- 1) assessment of budget funds management (including performing statutory financial audit);
- 2) appropriate accounting and fair financial and budget reporting;
- 3) achieving the purpose of saving budget funds, their use for intended purpose, efficiency and effectiveness of spending units operation by making reasonable managerial decisions;
- 4) analyzing and assessing financial and economic activities of spending units;
- 5) preventing violations of budget legislation and securing interests of the state in the process of managing the state-owned property;
- 6) relevance of planning budget revenues and spending.

Control over spending of funds of the State Budget of Ukraine on behalf of the Verkhovna Rada of Ukraine is exercised by the Accounting Chamber. Activities of central executive bodies responsible for implementation of the government policy in exercising control over the compliance with budget legislation (within their authority established by this Code and other regulations) are directed, coordinated, and controlled by the Cabinet of Ministers of Ukraine.

Spending units represented by their directors arrange internal control and audit and are responsible for control and audit in their respective institutions and subordinate government-funded institutions. Internal control means a range of measures used by the director to ensure compliance with legislation and efficiency of spending budget funds, and achieve results in line with the established objective, tasks, plans, and requirements to the activities of a government-funded institution and its subordinate institutions. Internal audit means the activities of an internal audit unit in a government-funded institution aimed at improving management system, preventing illegal, inefficient and ineffective use of budget funds, errors or

other drawbacks arising in government-funded institution operation and its subordinate institutions, and improving the internal control. The main foundations for exercising internal control and conducting internal audit and the procedure for setting up internal audit units are established by the Cabinet of Ministers of Ukraine.

### ***10. Reporting on Execution of the State Budget of Ukraine***

Reporting on the execution of the State Budget of Ukraine (the budgets of the government-funded institutions) includes financial and budget reports. Financial reporting shall be prepared in accordance with the national accounting provisions (standards) and other statutory instruments of the central executive authority, which ensure formulation of the State budget policy.

Budget reporting reflects the progress in budget execution and contains information in terms of budget classification. The forms of financial and budget reporting and the procedure for filling them out shall be established by the central executive body, which ensures formulation of the State budget policy.

Reporting on the execution of the State Budget of Ukraine shall be consolidated, prepared, and submitted by the central executive body, which is implementing the State policy in the field of treasury servicing of budget funds. The central executive body, which is implementing the State policy in the field of treasury servicing of budget funds shall make sure that the information on the execution of the State Budget of Ukraine is accurate.

The Chief Accountant of a government-funded institution shall make sure that financial and budget reports are prepared and submitted in accordance with the established requirements.

Reporting on the performance of the State Budget of Ukraine shall be operational, monthly, quarterly, and annual.

## TEST TASKS FOR TOPIC 1

1. Financing of expenses for the current year, not related to construction is:
  - a) consolidated budget;
  - b) current budget;
  - c) development budget;
  - d) capital budget.
2. Planning the amount of budget revenues in terms of individual taxpayers is a method of budget planning, which is interpreted as:
  - a) the method of direct calculation;
  - b) analytical method;
  - c) the balance sheet method;
  - d) normative method.
3. The advantage of the econometric approach to budget forecasting is:
  - a) the possibility of obtaining forecast options for a wide range of initial conditions;
  - b) the models do not allow inconsistencies in the system of projected indicators;
  - c) change of indicators in the forecasting process;
  - d) simultaneous reflection in the model of two or more factors.
4. Who develops the main directions of budget policy ?:
  - a) the Verkhovna Rada of Ukraine;
  - b) the Cabinet of Ministers of Ukraine;
  - c) Ministry of Finance;
  - d) the National Bank of Ukraine.
5. One of the components of the budgetary mechanism is:
  - a) the budget process;
  - b) budget execution;
  - c) control and analysis of the use of budget resources;
  - d) all answers are correct.

6. The main directions of fiscal policy should be submitted to VRU:

- a) May 1;
- b) within 3 days of receiving the Main Monetary Indicators;
- c) until March 20;
- d) until June 1.

7. The main directions of budget policy must include:

- a) the amount of state budget revenues for the next budget period;
- b) the amount of state budget expenditures for the next budget period;
- c) the maximum amount of public debt;
- d) all answers are correct.

8. Through the consolidated budget, GDP is redistributed near:

- a) 40%;
- b) 60%;
- c) 30%;
- d) 50%.

3. The state budget of Ukraine is approved for the period entitled:

- a) budget year;
- b) the budget period;
- c) the budget cycle;
- d) there is no correct answer.

9. The budget process is divided by structure:

- a) to manage the budget process, accounting for budget execution, control over budget execution;
- b) budget planning (drafting, consideration, approval), budget execution;
- c) drafting of the budget, consideration and adoption of the law on the budget for the next budget period, budget execution, preparation and consideration of the report on budget execution;
- d) other.

10. What macro indicators are the basis of budget formation:

- a) gross national product;

- b) gross domestic product;
- c) gross national product index;
- d) are all the answers correct?

11. The Law of Ukraine on the State Budget of Ukraine shall be adopted by:

- a) by 3 (8) November;
- b) by November 20;
- c) until December 1;
- d) until December 31.

12. Local budgets are approved:

- a) the Ministry of Finance of Ukraine;
- b) chairmen of executive bodies of relevant councils;
- c) decisions of the relevant councils;
- d) there is no correct answer.

13. Changes to the state budget which has come into force are made:

- a) the Ministry of Finance of Ukraine;
- b) SCS of Ukraine;
- c) the Verkhovna Rada of Ukraine;
- d) the National Bank of Ukraine.

14. Name the date of approval of local budgets in Ukraine:

- a) December 25;
- b) December 2;
- c) December 30;
- d) December 15.

## TOPIC 2. BUDGET STRUCTURE AND CONSTRUCTION OF THE BUDGETARY SYSTEM OF UKRAINE

### *1. Structure of Ukrainian Budget System*

**Budget system of Ukraine** is a system of state budget and local budgets based on economic relations, state system and administrative and territorial system and governed by the rule of law.

The budget system of Ukraine consists of the **state** budget and **local** budgets.

**Local budgets** include the budget of the Autonomous Republic of Crimea, oblast and rayon budgets, and local self-government budgets.

**Local self-government budgets** are budgets of territorial communities of villages, their associations, rural settlements, and cities (including districts in cities).

### *2. Consolidated Budget*

**Consolidated** budget is a range of budget indicators used for the analysis and forecasts of economic and social development of a country.

**Consolidated budget** of Ukraine includes indicators of the State Budget of Ukraine, consolidated budget of the Autonomous Republic of Crimea, and consolidated budgets of oblasts and cities of Kyiv and Sevastopol.

**Consolidated budget of the Autonomous Republic of Crimea** includes indicators of the budget of the Autonomous Republic of Crimea, and consolidated budgets of rayons and cities of republican subordination of the Autonomous Republic of Crimea.

**Consolidated budget of an oblast** includes indicators of the oblast budget and consolidated budgets of rayons and cities of oblast subordination in this oblast.

**Consolidated budget of a rayon** includes indicators of the rayon budget and the budgets of the amalgamated territorial communities of the rayon.



**Consolidated budget of a city divided into districts** includes indicators of the city budget and budgets of the respective districts. When other cities, rural settlements, or villages are administratively subordinated to a city or a city district, then the consolidated budget of such a city or a city district includes budget indicators of such cities, rural settlements, and villages.

Budget indicators of **amalgamated territorial communities**, which are established according to law and included into relevant consolidated budgets according to the prospective plan of formation of community territories.

### ***3. Principles of the Ukrainian Budget System***

Budgetary system of Ukraine is based on the following principles:

1) **the principle of unity of the budget system of Ukraine** - the unity of the budget system of Ukraine is established by the unified legal framework, single monetary system, uniform regulation of budget relations, single budget classification, integrity of budget execution procedure and accounting and reporting;

2) **principle of equilibrium** - the authority to effect budget expenses shall be in compliance with the volume of budget revenues for the corresponding budget period;

3) **principle of autonomy** - the State Budget of Ukraine and local budgets are autonomous. The state bears no responsibility against the state budget funds for budgetary commitments of government authorities of the Autonomous Republic of Crimea and local self-governments. Government authorities of the Autonomous Republic of Crimea and local self-governments bear no responsibility against their corresponding budget funds for budgetary commitments of each other and budgetary commitments of the state. The autonomy of the budgets is supported by assigning to them the corresponding sources of budget revenues, by the right of corresponding government authorities and authorities of the Autonomous Republic of Crimea and local self-governments to identify areas of use of budget funds according to the Ukrainian legislation, by the right of the Verkhovna Rada of the

Autonomous Republic of Crimea and corresponding local councils to independently deliberate and approve their respective local budgets;

4) **principle of completeness** - the budgets shall include all budget revenues and expenses effected according to regulations of government authorities, authorities of the Autonomous Republic of Crimea, and local self-governments;

5) **principle of reasonableness** - the budget is formed on the basis of realistic macro-indicators of economic and social development of Ukraine and on the basis of projected revenues and expenditures of the budget in line with the approved methodologies and rules;

6) **principle of efficiency and effectiveness** - when drafting and executing budgets, all participants of the budget process shall aim at achieving objectives set in line with the national system of values and objectives of innovative development of economy by providing high-quality services guaranteed by the state, the Autonomous Republic of Crimea, and local self-governments (hereinafter, the "guaranteed services") while attracting the minimum volume of budget funds and achieving the maximum results when using the volume of funds defined by the budget;

7) **principle of subsidiarity** - distribution of types of expenditures between the state budget and local budgets, as well as among the local budgets is based on the necessity to bring the provision of guaranteed services as close as possible to their direct consumer;

8) **principle of specification** - budgetary funds shall be used solely for specific purposes identified by budget allocations and budget appropriations;

9) **principle of fairness and impartiality** - the budget system of Ukraine is based on the principles of fair and unbiased distribution of public wealth among citizens and territorial communities;

10) **principle of transparency and publicity** - informing general public on preparing, deliberating, approving, and executing the state budget and local budgets, as well as exercising control over the execution of the state budget and local budgets.

#### ***4. Budget Classification***

**Budget classification** is a single systematized aggregation of revenues, expenditures, loans, budget financing and debt according to the Ukrainian legislation and international standards.

**Budget classification** is used:

- to prepare and execute the state and local budgets;
- report on their execution;
- exercise control over the financial activities of government authorities, authorities of the Autonomous Republic of Crimea, local self-governments, and other spending units;
- to conduct financial analysis by revenues, organizational, functional, and economic categories of expenditures, loans, financing and debt;
- to ensure the nationwide and international comparability of budget indicators.

Budget classification is binding upon all the participants of budget process within the scope of budget permissions.

The central executive body, which provides for the formulation of the state budget policy, shall approve the budget classification, its amendments, and shall inform the Verkhovna Rada of Ukraine accordingly.

Budget classification has the following **components**:

- 1) classification of budget revenues;
- 2) classification of expenditures and loans of the budget;
- 3) classification of budget financing;
- 4) debt classification.

#### ***5. Classification of Budget Revenues***

Budget revenues are classified as follows:

- 1) tax receipts;
- 2) non-tax receipts;
- 3) revenues from capital transactions;
- 4) transfers.

## ***6. Classification of Expenditures and Loans of the Budget***

Expenditures and loans of the budget are classified as follows:

- 1) in line with budget programs (program-based classification of budget expenditures and loans);
- 2) according to the key spending unit characteristic (institutional classification of budget expenditures and loans);
- 3) according to the functions related to expenditures and loans of the budget (functional classification of budget expenditures and loans).

## ***7. Classification of Budget Financing***

Classification of budget financing includes sources for obtaining financial resources required to cover budget deficit, and areas of spending financial resources resulting from budget surplus. Debt settlement expenses are included into budget financing.

Budget financing is classified as follows:

- 1) by the type of creditor (by categories of creditors or owners of debt liabilities);
- 2) by the type of debt liability (by means used for budget financing).

## ***8. Debt Classification***

Debt classification systematizes information about all debt liabilities of the state, the Autonomous Republic of Crimea, and territorial communities of cities.

Debts are classified by the type of creditor and the type of debt liability.

## TEST TASKS FOR TOPIC 2

1. The budget system is determined by:

- a) state form of government and administrative-territorial reform;
- b) state system and interstate territorial division;
- c) state system and national policy;
- d) state system and administrative-territorial division.

2. The distribution of expenditures between the levels of the budget system is based on the following criteria:

- a) departmental subordination, uniformity of budget revenues, territorial location of budget institutions;
- b) territorial location of budget organizations and departmental subordination of taxpayers;
- c) departmental subordination and territorial location of institutions;
- d) departmental subordination, territorial location of state funds and committees.

3. The distribution of types of expenditures between the state budget and local budgets, as well as between local budgets is based on the need to bring the provision of guaranteed services as close as possible to their direct consumer:

- a) the principle of subsidiarity;
- b) the principle of targeted use of budget funds;
- c) the principle of completeness;
- d) the principle of validity.

4. The consolidated budget of the region includes:

- a) indicators of the district budget, budgets of cities of district significance;
- b) indicators of district budgets, budgets of territorial communities of the region, regional budget;
- c) indicators of the district budget, consolidated budgets of local self-government;
- d) all the answers are incorrect.

5. The consolidated budget of the city with the district division includes
- a) indicators of the city budget and budgets of the districts which are a part of it;
  - b) consolidated indicators of budgets of districts that are part of the city with district division;
  - c) indicators of the consolidated city budget;
  - d) all the answers are incorrect.
6. The budget system is:
- a) division of the budget system into local budgets;
  - b) principles and organization of the budget system;
  - c) organization and principles of building intergovernmental relations;
  - d) organization and principles of construction of the budget process.
7. The principle of publicity and transparency of the budget system provides:
- a) the use of budget funds only for the purposes specified in the budget allocations and budget allocations;
  - b) informing the public on the issues of preparation, consideration, approval, execution of the state budget and local budgets, as well as control over the execution of the state budget and local budgets;
  - c) implementation of budget expenditures in accordance with the amount of budget revenues for the relevant budget period;
  - d) providing information to the public on control measures for the use of budget funds.
8. The consolidated budget of Ukraine includes indicators:
- a) the regional budget;
  - b) the budget of the ARC, the budgets of the regions, the budgets of the cities of Kyiv and Skvastopol;
  - c) district budgets;
  - d) budgets of districts and cities of regional subordination.
9. The principle of independence of local budgets is as follows:
- a) receiving financial assistance for equalization;

b) fixing for each link of the budget of the corresponding incomes and realization of financing according to the given competence, independent consideration and approval of the budget;

c) fixing for each link of the budget of the corresponding incomes and realization of financing according to the given competence;

d) legal regulation of intergovernmental relations.

10. The consolidated budget of the district includes:

a) indicators of the district budget, consolidated budgets of local self-government;

b) there is no correct answer;

c) indicators of the district budget, budgets of cities of district significance;

d) indicators of the district budget, budgets of cities of district significance, settlement and village budgets of this district.



## TOPIC 3. SYSTEM OF BUDGET REVENUES

### *1. Determination of public revenues*

**Budget revenues** are irrevocable tax, non-tax, and other receipts collected according to the Ukrainian legislation (including transfers, payments for administrative services, and own-source revenues of governmentfunded institutions).

### *2. Execution of the State Budget of Ukraine in Terms of Revenues*

The central executive body, which ensures formulation of the State budget policy, shall make projections and analysis of budget revenues.

The central executive body, which is implementing the State policy in the field of treasury servicing of budget funds, shall account for all revenues of the State Budget of Ukraine and, upon the request of agencies controlling revenue collection, return the funds credited to the budget by mistake or in excess.

The agencies controlling revenue collection shall ensure the timely and full receipt of taxes and duties (mandatory payments) to the state budget and other state budget revenues in accordance with the legislation. The Council of Ministers of the Autonomous Republic of Crimea, local state administrations and executive bodies of city (cities of republican subordination of the Autonomous Republic of Crimea and cities of oblast subordination) councils shall coordinate the activities of the respective collection bodies regarding performance of the budget revenue indicators assigned for the territories.

Taxes and duties (mandatory payments) and other state budget revenues shall be credited directly to the Single Treasury Account and cannot be accumulated on the accounts of agencies controlling revenue collection (except for the Ukrainian institutions functioning abroad). The procedure for crediting funds received by the Ukrainian institutions functioning abroad to the state budget and own-source

revenues of State-owned and municipal higher educational institutions, scientific institutions, and cultural institutions received as fee for the services they provide in line with their core activity, charity donations, and grants established by the Cabinet of Ministers of Ukraine.

Taxes and duties (mandatory payments) and other state budget revenues shall be considered credited to the state budget starting from the day of crediting to the Treasury Single Account. 6. Non-monetary settlements with the budget, including offsetting, use of promissory notes, barter transactions and offsetting of claims in the financial institutions shall be prohibited, except for the transactions related to public debt, and cases stipulated by the Law on the State Budget of Ukraine.

List of taxes and duties (mandatory payments) and other budget revenues according to the budget classification broken down by agencies controlling revenue collection, as well as general requirements for budget revenue accounting, shall be determined by the Cabinet of Ministers of Ukraine.

In the event tax payer business entities change their location, taxes and duties (mandatory payments) determined by the legislation after the registration shall be paid at the previous location until the current budget period expires.

### ***3. Classification of revenues***

Budget revenues are classified as follows:

- 1) tax receipts;
- 2) non-tax receipts;
- 3) revenues from capital transactions;
- 4) transfers.

Tax receipts include national taxes and duties (mandatory payments) and local taxes and duties (mandatory payments) established by Ukrainian laws on taxation.

The following are recognized as non-tax receipts:

- 1) revenues from property and entrepreneurship activities;

2) administrative duties and payments, revenues from non-commercial economic activity;

3) other non-tax receipts.

Transfers are funds received from other government authorities, the authorities of the Autonomous Republic of Crimea, local self-governments, other states or international organizations on a free and irrevocable basis.

#### ***4. Composition of Revenues of general fund of the State Budget of Ukraine***

The revenues of general fund of the State Budget of Ukraine shall include:

1) personal income tax, which is paid (remitted) according to the Tax Code of Ukraine at the rate of 25 percent in the respective territory of Ukraine (except the territories of the cities of Kyiv and Sevastopol) and at the rate of 60 percent in the territory of the city of Kyiv;

2) personal income tax levied on interest income generated from a checking or deposit bank account, interest on deposit of a credit union member in the credit union, which is payable/remitted according to the Tax Code of Ukraine;

3) military duty payable/remitted according to para;

4) 90 percent of the enterprise profit;

5) 50 percent of the rent for special use of forest resources with regard to the timber harvested as part of final felling;

6) 45 percent of rent on special use of water (other than the rent on special use of water of local significance);

7) 75 percent of the rent for use of subsoil resources for extraction of minerals of national importance (except the rent for use of subsoil resources for extraction of oil, natural gas, and gas condensate, which is credited to the General Fund of the State budget in full);

8) excise tax on excise goods made in Ukraine;

9) excise tax on excise goods/products imported in the customs territory of Ukraine;

- 10) import duty;
- 11) export duty;
- 12) rent for transit transportation of natural gas via pipelines through the territory of Ukraine;
- 13) rent for transportation of crude oil and petroleum products by main oil pipelines and petroleum product pipelines through the territory of Ukraine;
- 14) rent for transit transportation of ammonia by pipelines through the territory of Ukraine;
- 15) fee in the form of special-purpose surcharge to the existing tariff for natural gas for users of all forms of ownership;
- 16) rent for use of radio frequency resource of Ukraine;
- 17) 20 percent of the environmental tax (except the environmental tax levied on accumulation of radioactive waste (including already accumulated waste) and/or temporary storage of radioactive waste by its producers in excess of the period set forth by special license conditions, which is credited to the General Fund of the State budget in full);
- 18) road toll for use of motor roads by motor vehicles and other self-propelled machines and mechanisms, whose weight or size exceed those standard;
- 19) a charge for socioeconomic compensation of risks to the population living in the surveillance zone;
- 20) the part of the net profit (income) of unitary government enterprises and associations thereof withdrawn to the state budget by law, and the dividends (yield) accrued on shares (units, interests) in corporations whose authorized capitals contain state-owned property;
- 21) funds transferred by the National Bank of Ukraine in accordance with the Law of Ukraine "On the National Bank of Ukraine";
- 22) fee for depositing temporarily available funds of the state budget (other than funds received by higher learning and vocational institutions from depositing temporarily available budget funds received for rendering paid services providing such institutions are duly entitled to do so);

23) funds received by foreign diplomatic institutions of Ukraine as a payment for depositing budget funds belonging to them to the current accounts with foreign banks;

24) sanctions (fines, penalties, etc.) applied under the law;

25) administrative fee for State registration of title to immovable property and its encumbrances;

26) 15 percent of the fee for the provision of information from the Unified State Register of Business Entities and Individual Entrepreneurs, as well as 15 percent of the fee for obtaining information from other State registered kept by the central executive body of formulation and implementation of State legal policy and central executive body, which ensures implementation of the State policy in the field of State registration of civil status instruments, State registration of titles to immovable property, and State registration of business entities and individual entrepreneurs;

27) fee for permits to import and export to/from the territory of Ukraine or transit through the territory of Ukraine of narcotic drugs, psychotropic substances, and precursors;

28) charge for issuance of special permits to use subsoil resources and proceeds from sale of such permits;

29) other revenues, which are credited to the general fund of the State budget according to the established procedure.

### ***5. Composition of Revenues of special fund of the State Budget of Ukraine***

The sources of revenues for the formation of the special fund of the State budget of Ukraine (with due account for the special circumstances stated by para.1 of Part of Article 671 here of) are as follows:

1) 30 percent of cash compensation for the damages inflicted through breach of environmental legislation as the result of economic or other activity;

2) 85 percent of the fee for providing information from the Unified State

Register of Business Entities and Individual Entrepreneurs, as well as 85 percent of the fee for obtaining information from other State registers kept by the central executive body on formulation and ensuring implementation of the State legal policy, and the central executive body, which ensures implementation of the State policy in the fields of State registration of civil status instruments, State registration of title to immovable property, and State registration of business entities and individual entrepreneurs;

3) 50 percent of the fee for publication of notices on the official website of the central executive body, which is implementing the State policy in the field of State registration of business entities and individual entrepreneurs;

4) 50 percent of the fee for shortening the periods of provision of services in the field of State registration of title to immovable property and its encumbrances and State registration of business entities and individual entrepreneurs, as well as of the fee for the provision of other paid services related to State registration of title to immovable property and its encumbrances, and State registration of business entities and individual entrepreneurs;

5) funds received pursuant to Article 8 of the Law of Ukraine "On Settling the Issues Related to Ensuring Nuclear Safety" (including the receipt of debts from previous years for these funds);

6) own-source revenues of budget institutions (including research institutions of the National Academy of Sciences of Ukraine and sectoral academies of sciences), which are funded by the State budget, including rent for use of military property, property of the National Academy of Sciences of Ukraine and sectoral academies of sciences, 50 percent of rent for use of other property owned by budget institutions, which are funded by the State budget;

7) proceeds from sale of material assets from the State reserves;

8) proceeds from sale of material assets of the mobilization reserve withdrawn from the reserve;

9) receipts under assistance programs of the European Union;

10) 50 percent of the enforcement fee charged by offices of the State

Enforcement Service;

- 11) other revenues specified by the Law on the State Budget of Ukraine.

***6. The Composition of Revenues of the Budgets of Republican-Subordinated Cities of the Autonomous Republic of Crimea, Cities of Kyiv and Sevastopol and Budgets of Amalgamated Territorial Communities***

The revenues of the General Fund of budgets of republican-subordinated cities of the Autonomous Republic of Crimea, cities of Kyiv and Sevastopol, budgets of amalgamated territorial communities include:

- 1) 60 per cent of the personal income tax (other than territories of the cities of Kyiv and Sevastopol);

- 2) the revenues of the Kyiv city budget shall include 40 percent of the personal income tax. The revenues of the Sevastopol city budget shall include 100 percent of the personal income tax

- 3) 50 per cent of the rent for special use of forest resources with regard to the timber harvested as part of final felling, which is credited to city budgets of the cities of Kyiv and Sevastopol;

- 4) 50 per cent of the rent on special use of water (other than the rent on special use of water from local significance water bodies) credited to city budgets of cities of Kyiv and Sevastopol by water users at the place of the 66 water intake;

- 5) 25 per cent of the rent for the use of national-significance subsurface resources (except for the rent for use of subsurface resources for the extraction of oil, natural gas, and gas condensate) credited to city budgets of cities of Kyiv and Sevastopol;

- 6) fees for the use of other natural resources credited to city budgets of cities of Kyiv and Sevastopol;

- 7) excise tax on sales by retail trade economic entities of excisable goods, which is credited to the budgets of amalgamated territorial communities and city budgets;

8) 10 percent of the enterprise profit tax;

9) enterprise profit tax for municipal enterprises and financial institutions. The enterprise profit tax for the municipal enterprises and financial institutions founded by raion and city councils, and amalgamated territorial communities shall be credited to the raion and city budgets, and budgets of amalgamated territorial communities, respectively;

10) tax on property, which is credited into local government budgets;

11) single tax, which is credited into local government budgets;

12) fee for parking of vehicles, which is credited into budgets of local governments;

13) tourism fee which is credited into budgets of local governments;

14) license fee for certain types of economic activity and certificates issued by raion State administrations and executive bodies of respective local councils, which is credited to raion budgets and local government budgets, respectively;

15) fee for licenses and certificates, which is credited into city budgets of the cities of Kyiv and Sevastopol by licensees at the place of their business;

16) license fee for the production of ethyl alcohol, brandy and fruit spirits, grape rectified ethyl alcohol, fruit rectified ethyl alcohol, raw grape alcohol, raw fruit alcohol, alcoholic beverages, and tobacco products, which is credited into budgets of the cities of Kyiv and Sevastopol by licensees at the place of their business;

17) fee for State registration;

18) proceeds from the rent for use of a property complex and other municipally-owned property, which was founded by raion and city councils, and amalgamated territorial communities;

19) the rent for use of subsoil resources for the extraction of minerals of local significance;

20) the rent for water bodies;

21) punitive penalties for breaches of patent law;

22) administrative fines and penalties for violation of legislation on production



and penalties for violation of legislation on production and trafficking of alcohol and tobacco, is credited into the location of the offense;

23) administrative fines imposed by local executive authorities and executive bodies of local councils or by administrative commissions set up by the former according to the established order;

24) other revenues subject to crediting into budgets of amalgamated territorial communities, and raion and city budgets according to law.

### ***7. Composition of Revenues of the Autonomous Republic of Crimea, and Oblast Budgets***

The General Fund revenues of the budget of the Autonomous Republic of Crimea and oblast budgets shall include:

- 1) 15 percent of the personal income
- 2) 10 percent of the enterprise profit tax;
- 3) tax on profit of municipally-owned enterprises and financial institutions.

The tax on profit of the municipally-owned enterprises and financial institutions founded by the Verkhovna Rada of the Autonomous Republic of Crimea and oblast councils shall be credited to the budget of the Autonomous Republic of Crimea and oblast budgets, respectively.

4) 50 percent of the rent for special use of forest resources with regard to the timber harvested as part of final felling;

5) 50 percent of the rent on special use of water;

6) 50 percent of the rent for use of subsoil resources for the extraction of mineral resources of national significance;

7) fees for the use of other natural resources;

8) excise tax on excisable goods (products) made in Ukraine paid by the taxpayers registered in the Autonomous Republic of Crimea into the budget revenues of the Autonomous Republic of Crimea;

9) part of net profit/income of municipal unitary enterprises and their

associations;

10) fee for placement of temporarily idle funds of the budget of the Autonomous Republic of Crimea and oblast budgets;

11) fee for licenses and certificates, which is credited to the budget of the Autonomous Republic of Crimea and oblast budgets by licensees at the place of their business;

12) administrative fines imposed by local executive authorities or administrative commissions set up by the former according to the established procedure;

13) proceeds from the rent for use of a municipally-owned property complex and other property founded by the Verkhovna Rada of the Autonomous Republic of Crimea and oblast councils;

14) funds received from the winning bidder of the procurement procedures in the course of concluding a procurement contract as security for performance of that contract, which are non-refundable to the winning bidder, with regard to procurements against the funds of the budget of the Autonomous Republic of Crimea and oblast budgets;

15) other revenues subject to crediting to the budget of the Autonomous Republic of Crimea and oblast budgets according to law.

### ***8. Revenues of Special Fund of Local Budgets***

Revenues of the special fund of local budgets shall include:

1) revenues of the development budget of local budgets;

2) funds from compensation for losses of the agricultural and forestry production that shall be credited at the following rates: 100 per cent - to budgets of cities of Kyiv and Sevastopol, 25 per cent - to the budget of the Autonomous Republic of Crimea and oblast budgets, 75 per cent - to the budgets of cities of republican subordination of the Autonomous Republic of Crimea and cities of oblast

subordination, 15 per cent - to rayon budgets and 60 per cent - to budgets of cities of rayon subordination, rural settlements, and villages;

3) concession payments for the community-owned objects (intended for a specific purpose under the law);

4) 70 per cent of the monetary penalties for the damage caused by violation of environmental protection legislation as a result of business and other activities, including: 50 per cent - to village, rural-settlement, and city budgets; 20 per cent - to oblast budgets and the budget of the Autonomous Republic of Crimea; 70 per cent - to budgets of cities of Kyiv and Sevastopol;

5) deduction of 10 per cent of the cost of potable water by business entities engaged in entrepreneurial activities selling potable water via centralized water supply systems with the departure from the relevant standards credited to budgets of cities, rural settlements, and villages;

6) revenues of government-funded institutions maintained by the relevant local budget;

7) targeted and voluntary contributions of enterprises, institutions, organizations and individuals to the republican environmental protection fund of the Autonomous Republic of Crimea and local environmental protection funds;

8) revenues of special-purpose funds set up by the Verkhovna Rada of the Autonomous Republic of Crimea and local councils;

9) other subventions provided from other budgets against specifically designated revenues of the special fund of such budgets;

10) repayment of loans issued from local budgets to individual rural developers;

11) repayment of loans issued from local budgets to young families and unmarried young people for the construction (reconstruction) and acquisition of accommodation, as well as fines and interest charged for use thereof;

12) revenues through its assistance programs and grants from international financial institutions and the European Union;

13) other revenues specified in the Law on the State Budget of Ukraine.

## ***9. Development Budget of Local Budgets***

Revenues of the development budget of local budgets shall include:

1) the dividends (yield) accrued on shares (units, interests) in corporations whose authorized capitals contain property owned by the Autonomous Republic of Crimea or community-owned property;

2) fee for issuing local guarantees;

3) funds of shared-cost participation in the development of infrastructure of a locality, received according to the Law of Ukraine "On Regulation of Urban Development Activity";

4) 10 percent of the funds from the use (sales) of output, which is owned by the state under production sharing agreements, and / or funds in the form of monetary equivalent of such public goods (excluding funds from the state of the products produced in mineral resources within the area of the continental shelf and exclusive (maritime) economic zone of Ukraine), distributed to local budgets of administrative units, on whose territory the relevant subsoil in the following ratio: 5 per cent - to the 80 budget of ARC or regional budget; 3.5 percent - the regional budget; 1.5 percent - to the raionsubordinated city, village, and settlement budgets. If the site is located in the bowels of several administrative units, funds between local budgets are allocated within the established value is specified by the Cabinet of Ministers of Ukraine;

5) funds from alienation of property owned by the Autonomous Republic of Crimea or community-owned property; funds from the sale of non-agricultural land plots or rights thereto;

6) 90 per cent of funds from the sale of non-agricultural land plots or the rights thereto that are owned by the state before the delimitation of the state-owned and community-owned land (other than state-owned nonagricultural land plots that accommodate facilities subject to the privatization); at that, the proceeds from the sale of land plots located on the territory of the Autonomous Republic of Crimea

shall be allocated as follows: 35 per cent - to the budget of the Autonomous Republic of Crimea, 55 per cent - to the budgets of villages, rural settlements, and cities of the Autonomous Republic of Crimea;

7) capital transfers (subventions) from other budgets;

8) funds from the repayment of loans that have been issued from the relevant budget and the interest paid for the enjoyment thereof;

9) local borrowings made in accordance with the procedure defined by this Code and other laws of Ukraine;

10) funds handed over from another part of the local budget by the decision of the Verkhovna Rada of the Autonomous Republic of Crimea or an appropriate local council (with regard to funds of the reserve fund of a local budget related to expenses of the development budget — by decision of the Council of Ministers of the Autonomous Republic of Crimea, local State administration, executive body of the relevant local council).

### TEST TASKS FOR TOPIC 3

1. The composition of state budget revenues is determined by:
  - a) the Constitution of Ukraine;
  - b) the Budget Code of Ukraine;
  - c) the law on the State Budget of Ukraine for the relevant year;
  - d) b) and c).
2. Budget revenues in accordance with the Budget Code are classified into the following sections:
  - a) non-tax revenues, tax revenues;
  - b) income from capital transactions, trust funds;
  - c) official transfers, income from capital transactions;
  - d) correct answers a) and c).
3. Proceeds from the sale of fixed capital include:
  - a) proceeds from the sale of land and intangible assets;
  - b) proceeds from the sale of tangible assets of the state reserve;
  - c) receipt of funds from the sale of orphaned property that has become the property of the state;
  - d) all previous answers are correct.
4. The budget revenues of the city of Kyiv include:
  - a) 60% of the total personal income tax;
  - b) 25% of the total personal income tax;
  - c) 40% of the total amount of personal income tax;
  - d) there is no personal income tax.
5. The tax on the profit of the enterprises of private property to the budget of the city of Storozhynets is credited in the following size:
  - a) 15% of the total;
  - b) 60% of the total volume;
  - c) 40% of the total amount;
  - d) does not come to this budget.

6. Local taxes and fees come to:

- a) the state budget;
- b) the regional budget;
- c) local budgets;
- d) development budget.

7. The ecological tax is credited to the state budget in the following amount:

- a) 20% of the total amount;
- b) 80% of the total volume;
- c) 100% of the total amount;
- d) 45% of the total.

8. Budget revenues are:

a) tax, non-tax and other revenues on a non-refundable basis, the collection of which is provided by the legislation of Ukraine;

b) tax, non-tax and other revenues on a non-refundable basis (including transfers, fees for administrative services, own revenues of budgetary institutions), the collection of which is provided by the legislation of Ukraine;

c) tax, non-tax and other revenues on a non-refundable basis (including gifts), the collection of which is provided by the legislation of Ukraine;

d) tax, non-tax and other revenues on a non-refundable basis (including grants), the collection of which is provided by the legislation of Ukraine.

9. Income from property and business activities include:

- a) net profit of state enterprises;
- b) a single fee, which is levied at checkpoints across the state border;
- c) state duty;
- d) own revenues of budgetary institutions.

10. Official transfers as a source of budget revenue include:

- a) reverse subsidy;
- b) basic subsidy;
- c) subventions;
- d) all previous answers are correct.

11. The revenues of the budget of Kyiv include:

- a) 60 percent of personal income tax;
- b) 40 percent of personal income tax;
- c) local taxes and fees;
- d) b) and c).

12. Corporate income tax is credited to:

- a) the state budget;
- b) the state budget and local budgets;
- c) local budgets;
- d) the district budget.

13. Rent for special use of forest resources to the local government budget in the following amount:

- a) 25% of the total;
- b) 37% of the total;
- c) 50% of the total amount;
- d) does not come to this budget.



## TOPIC 4. SYSTEM OF BUDGET EXPENDITURES

### *1. Determination of public expenditures*

**Budget expenditures** means funds allocated for carrying out programs and taking measures stipulated by the corresponding budget. Budget expenditures do not include: debt settlement; issuing loans from the budget; depositing budget funds; purchase of securities; recovery of taxes and duties (mandatory payments) overpaid to the budget and other budget revenues, conducting their recovery out of budget.

**Budget expenses** means budget expenditures, issuing loans from the budget, debt settlement and depositing budget funds, purchase of securities.

### *2. Classification of Expenditures and Loans of the Budget*

Expenditures and loans of the budget are classified as follows:

- 1) in line with budget programs (program-based classification of budget expenditures and loans);
- 2) according to the key spending unit characteristic (institutional classification of budget expenditures and loans);
- 3) according to the functions related to expenditures and loans of the budget (functional classification of budget expenditures and loans).

**Program-based classification** of budget expenditures and loans is used when the program-based budgeting in the budget process is applied. Program classification of expenditures and loans of the state budget (local budget) is formulated by the Ministry of Finance of Ukraine (local financial authority) according to the proposals submitted by key spending units when drafting the Law on the State Budget of Ukraine (decision on local budgets) in the budget requests. Program-based classification of expenditures and loans of local budgets is formulated according to the standard program classification of expenditures and loans of a local budget approved by the central executive body, which ensures

formulation of the state budget policy. Prior to employing the program-based budgeting in the budget process at the local budgets level, a provisional classification of local budgets expenditures and loans is used as approved by the central executive body, which ensured formulation of the state budget policy. For the purposes of this Code, the components of this part of classification that specify programs and measures related to exercising powers of government authorities of the Autonomous Republic of Crimea, local state administrations and self-local governments are used within the context of the term "budget program."

Institutional classification of budget expenditures and loans includes the list of **key spending** units to systematize the budget expenditures and loans according to the key spending unit characteristic. Based on institutional classification of budget expenditures and loans, the central executive body, which is implementing the state policy in the field of treasury servicing of budget funds develops and keeps a single register of spending units and recipients of budget funds. Key spending units define a network of spending units of lower level and recipients of budget funds according to the requirements for formulating the single register spending units and recipients of budget funds and data contained therein.

**Functional classification** of budget expenditures and loans is broken down by:

1) sections systematizing the budget expenditures and loans relating to performing functions pertaining to the state, the Autonomous Republic of Crimea, or a local self-government.

2) subsections and groups specifying the budget expenditures and loans relating to performing functions pertaining to the state, the Autonomous Republic of Crimea, or local self-government;

Expenditures of the budget are classified by economic nature of the related transactions (economic classification of budget expenditures). According to the economic classification, the budget expenditures fall into current and capital expenditures.

Classification of budget lending systematizes budget lending by type of a borrower and breaks down lending transactions by issuing loans from budget and repayment of loans to the budget.

The budget expenses (expenditures) include consumption expenses (expenditures) and development expenses (expenditures) under the budget classification.

### ***3. Budget execution***

The general PFM reference material tends to focus on budget execution from the perspective of the Ministry of Finance. It emphasises the need to ensure the budget is executed in accordance with the appropriations and rules to prevent corruption and overspending (arrears accumulation). The budget execution process is usually divided into four steps:

- 1) authorisation and allocation of appropriations (the release of funds to spending units);
- 2) commitment of funds to specific purchases;
- 3) verification of deliveries;
- 4) and payment.

#### **Commitment controls**

**Commitments** are a future obligation to make a payment (for instance a signed contract for delivery of a service) but the exact definition varies between countries, and the practices of recording and tracking commitments are equally varied. In order to effectively manage the government's cash flow and prevent arrears from accumulating, it is important to monitor the pipeline of future payments. How commitments are defined and monitored is therefore a central topic in budget execution literature.

#### **Cash management**

A major challenge for the Treasury is how to manage the flow in order to ensure that funds are available in time to meet payment obligations, while

preventing arrears accumulation, reducing the need for government borrowing and maximising returns on cash balances. In order to ensure central control over cash, governments are advised to operate a Treasury single account. This is a single account or set of linked accounts where all government revenue is deposited before it is allocated for expenditure purposes. There are different methods of managing transactions linked to this account: countries may centralise all payment transactions through the single account, centralise cash balances only but channel funds to spending agency accounts for payment purposes or operate an imprest system, whereby spending agencies are given advances which they clear on a regular basis.

### **Budget alterations**

Another important Ministry of Finance responsibility is to monitor and manage in-year changes to the budget. Unforeseen circumstances or poor budgeting may make it necessary to adjust the budget. Rules will govern transfers between budget categories (virements). Substantial changes to the budget may require a budget supplemental. Preparing a supplemental is essentially a mini-budgeting process whereby an amendment to the budget is prepared and submitted for legislative approval.

In developing countries, and particularly in fragile states, underspending is frequently as much of a problem as overspending. A failure to spend funds in a timely manner and in accordance with the budget points to a failure to deliver planned services. It is therefore useful to consider the budget execution responsibilities of spending agencies.

### **Public procurement**

Capital goods and non-wage recurrent goods and services should be subject to a country's procurement regulations. Procurement rules aim to ensure the government receives the best value for money when buying goods and services, without incurring excessive transaction costs. Procurement resembles a reverse auction, whereby suppliers compete to offer the lowest price for a good or service. To balance value for money against excessive transaction costs, procurement procedures vary for different expenditure categories and the value of the purchase.

While low-cost readily available goods can usually be procured according to relatively simple procedures, larger and more complex contracts require competitive bidding. Procurement is a common source of corruption and therefore procurement systems tend to include controls aimed to detect and deter corruption. In the past, it was common to operate a centralised procurement system, whereby one government agency procured on behalf of all spending agencies. Over the past decades, most countries have moved to decentralised procurement, with each spending agency managing its own procurement. This has increased the need for skilled procurement personnel across government.

### **Internal control**

Internal (or management) control systems are the policies and procedures put in place by the management of a government agency in order to ensure the agency achieves its objectives and complies with external laws and regulations. Such policies and procedures tend to cover financial accounting and reporting, performance monitoring, asset management and procurement. Large agencies will have an internal audit unit comprising internal auditors that independently review and report on the implementation of management policies to the head of the agency. Internal auditing is a relatively new function in both advanced and developing countries, and its role is often poorly understood and utilized

### ***4. Stages of Budget Execution in Terms of Expenditures and Lending***

The stages of execution of budget in terms of expenditures and lending are:

1) establishing budget appropriations to spending units on the basis and within the limits of the approved budget breakdown;

2) approval of breakdowns of costs, passports of budget programs (if program-based budgeting in the budget process is applied), and procedures for using budget funds. According to the approved budget breakdown the spending units shall receive budget appropriations, which constitutes the grounds for the approval of breakdowns of costs. Procedure for making, considering, approving and setting

major requirements to execution of breakdowns of costs of government-funded institutions shall be established by the Cabinet of Ministers of Ukraine

The central executive body, which is implementing the State policy in the field of treasury servicing of budget funds, exercises control over the compliance of the spending units' breakdowns of costs with the budget breakdown. 3. Spending units are responsible for managing budget appropriations and exercising control over the compliance with the procedures and requirements stipulated hereby;

3) taking on budget liabilities. Spending units take on budget liabilities and make payments only within the limits of budget appropriations established by the breakdowns of costs taking into account the need to meet liabilities of the previous years registered by bodies, which are implementing the treasury servicing of budget funds; as regards the objectives (projects) of the National IT Program - after their approval with the General State Customer of the National IT Program;

4) receiving goods, work, and services;

5) making payments according to the budget liabilities taken. Having received goods, work and services under the terms of a budget liability assumed, the spending unit shall make a decision to pay for them and instruct a body of the State Treasury of Ukraine to make such a payment. The central executive body, which is implementing the State policy in the field of treasury servicing of budget funds, shall make payments on instructions of spending units in the event: 1) there is a relevant budget liability for the payment in the budget execution accounting; 2) there is a duly approved passport of budget program (in case program-based budgeting in the budget process is used); 3) spending units have proper budget appropriations;

6) use of goods, work, and services for implementation of budget program activities;

7) repayment of loans to the budget (in terms of budget lending). In the event the loans are issued from the state budget, the borrowers face a liability to the budget. Starting from the moment the loans are issued from the budget for the amount of funds received from the budget, substantially all creditor's rights and the

right to claim the repayment of such loans to the budget shall be transferred to the government (Autonomous Republic of Crimea or territorial community). Limitation period shall not apply to the claims for repayment of such debt. The bodies of revenues and duties shall be determined as the bodies for collecting the debt of business entities overdue to the government (Autonomous Republic of Crimea or territorial community) under the loans from the budget.

### ***5. Expenditures Made from the State Budget of Ukraine***

The expenditures made from the State Budget of Ukraine shall include the expenditures for:

- 1) public administration:
  - a) legislative branch;
  - b) executive branch;
  - c) President of Ukraine;
- 2) judicial branch;
- 3) international activities;
- 4) fundamental and applied research and promotion of the scientific and technological progress of national significance, international scientific and information relations of national significance, payment for services of training scientific personnel at scientific institutions under State order;
- 5) national defense (except for measures and work related to the mobilization training of local significance);
- 6) law enforcement activities, provision of state security and civil protection of the population and territories;
- 7) providing for operation of institutions and establishments of the Ukrainian Armed Forces and other military formations established according to the laws of Ukraine, law enforcement bodies, and civil defense bodies, which are owned by the State;
- 8) education:

a) general secondary education: art (graphic arts, musical, choreographic) general educational schools (boarding schools) owned by the State; general education social rehabilitation schools; a lyceum (gymnasium) boarding school with intensified military and physical training owned by the State;

b) vocational education (payment for services related to training of the qualified workers social rehabilitation and adaptation on the basis of state contracts in state-owned vocational education establishments);

c) higher education (payment for services related to training of specialists, scientific research and scientific/pedagogical human resources on the basis of state contracts in state-owned higher education establishments);

d) post-graduate education (payment for services related to advanced training and re-training of personnel on the basis of state contracts in state-owned education establishments);

e) extracurricular education establishments and extracurricular events for children in accordance with the list approved by the Cabinet of Ministers of Ukraine;

f) other establishments and measures in the field of education ensuring the performance of the national-level functions in accordance with the list approved by the Cabinet of Ministers of Ukraine;

9) health care:

a) primary medical/sanitary, outpatient and inpatient care (multi-profile hospitals and outpatient clinics performing specific national-level functions in accordance with the list approved by the Cabinet of Ministers of Ukraine);

b) specialized and highly specialized outpatient and inpatient care (clinics attached to the scientific research institutes, specialized hospitals, centers, leprosaria, hospitals for disabled veterans of the Great Patriotic War, specialized polyclinics, specialized dental polyclinics in accordance with the list approved by the Cabinet of Ministers of Ukraine);

c) sanatorium and rehabilitation care;



e) sanitary and epidemiological supervision (sanitary epidemiological stations, disinfection stations, epidemics countermeasures);

f) other programs in the field of health care ensuring the performance of the national-level functions in accordance with the list approved by the Cabinet of Ministers of Ukraine;

10) social protection and social support:

a) disbursement of pensions to the military servicemen including private, sergeant and noncommissioned officer staff on obligatory service and members of their families, pensions to military servicemen, and officers and privates of internal affairs agencies, other individuals specified by law; the payment of insurance premiums to the Pension Fund of Ukraine for the specific categories of individuals envisaged by law; disbursement of pension supplements, surcharges, mark-ups, and pensions for meritorious service to Ukraine as envisaged by law;

b) state social assistance;

c) state support to non-governmental organizations of disabled people and veterans that have the national status;

d) government programs and measures for children, young people, women, and families;

e) government support to youth and children non-governmental organizations in pursuance of national programs and measures intended for children, young people, women and families in accordance with the list approved by the Cabinet of Ministers of Ukraine;

f) government programs of support to the housing construction (rehabilitation) for certain categories of individuals;

g) ensuring operation of national, public, interregional centers for vocational rehabilitation for the disabled and public centers for social rehabilitation for the disabled children in accordance with the procedure defined by the Cabinet of Ministers of Ukraine;

h) other social protection and social security measures ensuring performance of national functions in accordance with the list approved by the Cabinet of Ministers of Ukraine;

i) compensation for the deficit of funds of the Pension Fund of Ukraine for financing pensions in the solidary system of general mandatory State pension insurance in connection with remittance of insurance premiums to the general mandatory defined contributions pension insurance system;

11) culture and arts:

a) government cultural and education programs (national museums, national and state libraries, international cultural relations, state cultural and education events, state support to national theaters, art collectives and their directorates, concert, national and State circus organizations owned by the State, cultural and art events of national creative unions according to the list approved by the Cabinet of Ministers of Ukraine;

d) creation and distribution of national films;

12) physical culture and sports:

a) State programs for development of physical culture and sports;

b) government programs of development of the physical culture and sports, the physical culture/sports rehabilitation of disabled people, the financial support to the Paralympic movement and bases of the Paralympic and Deaflympic training in accordance with the list approved by the Cabinet of Ministers of Ukraine);

13) government programs of support to the regional development and priority sectors of economy;

14) programs of the restoration of monuments of architecture, construction (creation) of monuments of national significance;

15) government programs of the development of transport facilities, road facilities, communication, telecommunications and information technologies; 16) government investment programs (projects);

17) government programs for the elimination of the aftermath of the Chernobyl disaster, the environmental protection and nuclear safety, the prevention

of occurrence and liquidation of the consequences of emergencies and the aftermath of natural disasters;

18) creation and renewal of state supplies and reserves;

19) servicing of public debt;

20) holding the elections in cases envisaged by the legislation and Ukrainian national-level referenda;

21) other programs of solely national importance.

### ***6. Expenditures undertaken from the budgets of the territorial community***

The expenditures made from budgets of republican-subordinated cities of the Autonomous Republic of Crimea and oblast-subordinated cities, raion budgets, budgets of amalgamated territorial communities shall include the expenditures on:

1) education:

a) pre-school education;

b) general secondary education: general education establishments (including: general education establishments of all levels, specialized schools (boarding schools), lyceums (boarding school lyceums), gymnasiums (boarding school gymnasiums), collegiums, evening (shift-based) schools); education and upbringing facilities with the structure of "preschool establishment + general education establishment", "general education establishment + pre-school education establishment";

c) the educational establishments for individuals requiring social assistance and rehabilitation: general education boarding schools, general education establishments for orphan children and children deprived of parental care, orphanages, training and rehabilitation centers (if at least 70 per cent of the total number of pupils in general education boarding schools, general education establishments for orphan children and children deprived of parental care, orphanages, training and rehabilitation centers reside within the relevant city or rayon), family-type orphanages and foster families;

d) other state educational programs;

f) higher education;

2) healthcare:

a) primary medical/sanitary, outpatient and inpatient care (broad profile hospitals, specialized medical care units, maternity hospitals, polyclinics and outpatient clinics, general dental polyclinics, as well as medical district hospitals, medical walk-in clinics, paramedical/obstetrician and paramedical stations, primary medical aid centers);

b) medical and sanitary education programs (city and rayon health centers and sanitary education measures);

3) social protection and social security:

a) government social support programs: shelters for children, the centers of the socio-psychological rehabilitation of children and social dormitories for orphan children and children deprived of parental care (if at least 70 per cent of the children accommodated in such establishments reside in the relevant city or rayon); territorial social service (social service provision) centers; disabled children social rehabilitation centers; disabled people professional rehabilitation centers, compensations to individuals rendering social services to senior citizens, the disabled, disabled children, outpatients unable to take care of themselves and requiring outside assistance;

b) state social protection programs: assistance to families with children, poor families, people disabled since the childhood, disabled children, temporary state assistance to children, allowance for providing care to disabled persons of groups I or II due to mental disorder; additional payments to the population for the coverage of the utilities expenses (housing subsidies for the population), preferences to special categories of individuals, such as: veterans of war; individuals subject to the Law of Ukraine "On War Veteran Status and Guarantees of Their Social Protection"; individuals with the special merit to the Motherland; widows (widowers) and parents of the deceased individuals with the special merit to the Motherland; individuals with the special labor merit to the Motherland; widows

(widowers) and parents of deceased individuals with the special labor merit to the Motherland; victims of the Nazi persecution; veterans of military service; veterans of internal affairs agencies; veterans of the tax militia; veterans of the state fire brigade; veterans of the State Criminal Penitentiary Service; veterans of the civil defense service; veterans of the State Special Communication and Information Protection Service of Ukraine; widows (widowers) of the deceased veterans of military service, veterans of internal affairs agencies, veterans of the tax militia, veterans of the state fire brigade, veterans of the State Criminal Penitentiary Service, veterans of the civil protection service, veterans of the State Special Communication and Information Protection Service of Ukraine; military servicemen dismissed from service due to the old age, due to illness or based on long-service from the Security Service of Ukraine, militia, officers of the tax militia, privates and officers of the criminal penitentiary system, persons dismissed from civil defense service due to age, illness or based on length of service, and who became disabled in the course of duty; pensioners from among investigators of the public prosecution service; children (until the attainment of the age of majority) of employees of the militia, officers of the tax militia, rank and officer staff of the criminal penitentiary system, the state fire brigade deceased in connection with the performance of the duties of service, and unemployable members of their families who have been maintained by them; individuals who became disabled during the military service and have been dismissed from the military service; to parents and family members of the military servicemen, military servicemen of the State Special Communications and Information Protection Service of Ukraine who died (passed away) or went missing in the course of their military service; to parents and family members of the rank-and-file and commanding staff of the Civil Defense Service who died (passed away) or went missing in the course of duty; ; the rehabilitated individuals who have become disabled as a result of repressions or are pensioners; individuals being victims of the Chernobyl Disaster; have in residence for at least one year three or more children, respective, as well as families (other than families with many children), which have in resident for a least one year three or more children,

including those with appointed guardianship or care; disabled people, disabled children and individuals who escort Group I disable persons or disabled children (not more than one escort); compensations for the preferential fare of certain categories of individuals; disbursement of the state social aid for orphan children and children deprived of parental care, in family-type orphanages and foster families, the pecuniary support to caregiver parents and foster parents for the provision of social services in family-type orphanages and foster families according to the "Money follows the child" principle; compensation to individuals, who used to enjoy preferences in paying the tax on owners of motor vehicles and other self-propelled machines and mechanisms, for loss of part of their income in connection with cancellation of such tax and respective increase in the rates of the excise tax on fuel according to the Tax Code of Ukraine;

c) government programs of support to the housing construction (rehabilitation) for certain categories of individuals;

d) rayon and city programs and events aimed at the implementation of the state policy in respect of children, young people, women and families, including the upkeep and programs of rayon and city centers of social services for families, children and young people;

4) government cultural/education and theatrical/show programs (village, settlement, and city Palaces and Houses of Culture, clubs, leisure centers, other club establishments and libraries theatres, rayon (city) libraries or centralized libraries of the centralized rayon (city) library system, museums, exhibitions, culture palaces and houses, aesthetic education schools for children, including community-owned establishments and institutions vested with the national status, zoos of municipal significance);

5) physical culture and sports : upkeep, training and educational work of the sports schools for children and youth of all types (other than schools of republican subordination of the Autonomous Republic of Crimea and schools of oblast subordination), physical culture and sports events, and the financial support to

physical culture and sports-focused local chapters of all-Ukraine nongovernmental organizations and sports structures of local significance

### ***7. Expenditures Undertaken from the Budget of the Autonomous Republic of Crimea and Oblast Budgets***

The expenditures made from the budget of the Autonomous Republic of Crimea and oblast budgets shall include the expenditures on:

1) public administration: a) representative and executive branch of the Autonomous Republic of Crimea;

2) education:

a) general education for individuals being in need of the social assistance and rehabilitation: special general education establishments for children being in need of the correction of physical and/or mental development, general education sanatorium-based boarding schools;

b) vocational education (payment for services related to training of the qualified workers on the basis of state contracts in state-owned and community-owned vocational education establishments;

c) higher education (payment for services of the training of specialists, scientific research and scientific/pedagogical human resources on the basis of regional contracts in community-owned higher education establishments, as well as on the basis of state contracts in state-owned higher education establishments according to a list specified by the Cabinet of Ministers of Ukraine); d) post-graduate education (payment for services of advanced training and re-training of personnel on the basis of regional contracts);

e) extracurricular education (extracurricular activities and institutions of the national, State, republican significance of the Autonomous Republic of Crimea and oblast significance for children);

f) other government educational programs;

3) healthcare:

a) consultancy, outpatient and polyclinic and inpatient aid (hospitals of republican subordination of the Autonomous Republic of Crimea and hospitals of oblast subordination), centers for emergency medical aid and disaster medicine, emergency (ambulance) stations;

b) specialized inpatient and outpatient treatment (specialized hospitals, outpatient clinics, including dental clinics, centers, dispensaries, military hospitals for war veterans, children homes, blood transfusion centers);

c) sanatorium-and-resort treatment (sanatoria for tuberculosis patients, sanatoria for children and adolescents, medical rehabilitation sanatoria);

d) other state medical and sanitary assistance programs (medical and social expert commissions, forensic medical expert appraisal offices, medical statistics centers, special medical supplies centers, health centers and sanitary education measures, regional activities within the scope of the implementation of state programs, other programs and measures);

4) social protection and social support:

a) government programs of social protection social support: compensation payments to the rehabilitated people; children boarding houses; training and employment of disabled people; boarding houses for elderly and disabled people; boarding houses for disabled children; social benefit calculation and disbursement centers; shelters for children, centers of socio-psychological rehabilitation of children and social dormitories for orphan children and children deprived of parental care; the preferential medical services and the disbursement of the monthly pecuniary aid in connection with the limitation of the consumption of local foods and the compensation for the preferential provision of foods to individuals being victims of the Chernobyl Disaster; compensation payments to disabled people for petrol, repairs, the technical maintenance of cars and the transportation services, as well as the installation of telephone sets for Group II and III disabled people; the reimbursement for expenses on the funerals of participants of combat activities and people disabled during the war; social rehabilitation centers for disabled children, professional rehabilitation centers for disabled people;



b) republican programs and measures in the Autonomous Republic of Crimea and oblast programs and measures aimed at implementation of the government policy regarding children, young people, women and family, including the upkeep and the programs of the republican center of social services for families, children and young people in the Autonomous Republic of Crimea, and the relevant oblast centers;

c) other state social programs;

5) culture and arts:

a) state cultural and education programs (national, State, republican libraries in the Autonomous Republic of Crimea and oblast libraries, museums and exhibitions, including community-owned establishments and institutions vested with the national status);

b) state theatrical and show programs (philharmonic societies, art, musical ensembles, theatres, concert and circus organizations, culture palaces and houses, other institutions of the national, State, republican 100 subordination of the Autonomous Republic of Crimea and oblast subordination, other establishments and events in the field of arts, including community-owned establishments and institutions vested with the national status);

c) other cultural and art programs;

6) physical culture and sports:

a) physical culture and sports development programs, physical culture and sports events of republican significance of the Autonomous Republic of Crimea and oblast significance financial support to the republican chapters in the Autonomous Republic of Crimea and oblast chapters of all-Ukraine nongovernmental physical culture and sports organizations;

b) government programs for physical culture and sports development, physical culture and sports-based rehabilitation of the disabled people;

7) program of environmental activities of local importance, measures of laboratory diagnostic, therapeutic and preventive maintenance budget institutions of veterinary medicine, co-financing (50 percent) projects to eliminate the coal and

peat industry and the cost of the drainage facilities in safe mode, restructuring and liquidation of projects about 'objects of our mining chemicals, underground iron ore mining, conservation mercury production, maintenance of drainage facilities.

### ***8. Expenditures of Local Budgets, which May Be Undertaken from All Local Budgets***

The expenditures of local budgets, which may be undertaken from all local budgets, shall include the expenditures on:

- 1) local fire brigade;
- 2) municipal public order maintenance units;
- 3) local government bodies;
- 4) social protection and social support:
  - a) local-significance programs for children, young people, women and family;
  - b) local social protection programs for specific population categories;
  - c) programs of social protection for poor students of vocational education establishments;
  - d) registration centers and social protection establishments for homeless individuals, centers of the social adaptation of individuals released from penitentiary institutions;
  - e) compensation payments for the preferential fares granted to certain categories of individuals;
  - f) compensations to individuals rendering social services to senior citizens, the disabled, disabled children, outpatients unable to take care of themselves and requiring outside assistance;
  - g) providing financial support and loans to veteran organizations;
- 5) local housing and utilities development, and populated area improvement programs;
- 6) culture-and-arts programs of local significance;
- 7) programs of support to the cinematography and mass media;

- 8) local programs of physical culture and sports development;
- 9) model designs, restoration and protection of monuments of architecture;
- 10) transportation and road facilities:
  - a) regulation of passenger transportation fares by decisions of local executive body and local self-government body in accordance with their respective authorities;
  - b) operation of local-significance road system (including the work performed by the specialized construction units);
  - c) construction, reconstruction, repair and maintenance of local-significance roads, municipal streets and roads within settlements;
- 11) sea and river rescue measures;
- 12) local debt servicing;
- 13) programs of environmental protection events of local significance; events programs in housing and communal services of construction and reconstruction of water supply and sewage treatment plants, purification of drinking water, upgrading heating systems, replacement of natural gas alternative fuels, modernization and repair of elevators, reconstruction and repair apartment buildings, equipment housing with house means keeping energy and water consumption, repair, renovation, building networks, street lighting, repair hostels transferred to the ownership of communities, energy-saving technologies;
- 14) management of the community-owned property;
- 15) regulation of land relations;
- 16) measures in the field of the protection of the population and territories against the technology and natureinduced extraordinary situations within the scope of powers established by law;
- 17) measures and work related to mobilization training of local significance;
- 18) holding local elections in events envisaged by the legislation, as well as republican referenda of the Autonomous Republic of Crimea and local referenda;
- 19) membership fees to associations of local self-government bodies and voluntary associations thereof;
- 20) advanced training for deputies of local councils and local government

officials;

21) implementation of assistance programs and grants of international financial organizations and the European Union;

22) programs for support of construction (reconstruction) of housing for certain citizen categories;

23) other programs related to the exercise of own powers approved by the Verkhovna Rada of the Autonomous Republic of Crimea or the relevant local council in accordance with the law.

## TEST TASKS FOR TOPIC 4

1. The estimate of income and expenses is made on:
  - a) the month;
  - b) the current year;
  - c) quarter;
  - d) no answer is correct.
2. Estimated financing is:
  - a) provision of budget funds on the basis of the financing plan;
  - b) provision of public funds on the basis of estimates of revenues and expenditures;
  - c) provision of budget funds on the basis of a business plan;
  - d) provision of budget funds on the basis of a strategic plan.
3. The institution to ensure its activities is:
  - a) an estimate of centralized activities;
  - b) general estimate;
  - c) individual estimate;
  - d) consolidated estimate.
4. Paid bills for transport services of the house of culture of the city of Storozhynets:
  - a) city, 2240;
  - b) regional, 2280;
  - c) district, 2240;
  - d) district, 22700.
5. An integral part of the estimate is:
  - a) the annual plan of allocations of the general fund of the budget;
  - b) monthly plan of allocations of the general fund of the budget;
  - c) monthly plan of allocations of the special fund of the budget;
  - d) the annual allocation plan of the special budget fund.

6. The institution carries out formation of the estimate of incomes and expenses on the basis of:

- a) limit certificate;
- b) allocation plan;
- c) financing plan;
- d) budget.

7. Loans from the budget to state enterprises are provided when the share of property that is state property is:

- a) 25%;
- b) 30%;
- c) 50%;
- d) 100%.

8. Scholarship paid to students of BSMU of Chernivtsi:

- a) state, 2720;
- b) state, 2110;
- c) city, 2210;
- d) regional, 2720.

9. Budget financing is:

- a) repayable allocation of funds from the budget;
- b) paid allocation of funds from the budget;
- c) non-refundable, gratuitous allocation of funds from the budget;
- d) no answer is correct.

10. The estimate of income and expenses of the institution approves:

- a) the head of the higher body;
- b) the head of the institution;
- c) the chief accountant of the higher body;
- d) the head and chief accountant of the higher body.

11. State subsidies are used to finance:

- a) planned and unprofitable enterprises that produce the necessary goods;
- b) budgetary institutions;

- c) local governments;
- d) defense.

12. Paid bills for repair of reproduction equipment of the house of culture of the city of Kelmentsi:

- a) district, 2240;
- b) city, 2800;
- c) district, 2275;
- d) regional, 2240.

13. Expenditures of institutions without approved estimates and allocation plans shall be terminated due to:

- a) 45 calendar days after the approval of the annual schedule of appointments;
- b) 30 calendar days after the approval of the annual schedule of appointments;
- c) immediately after the approval of the budget schedule;
- d) all the answers are incorrect.

14. Execution of estimates and plans of allocations is carried out:

- a) monthly;
- b) quarterly;
- c) cumulative total since the beginning of the year;
- d) daily.

15. The estimate of incomes and expenses of budgetary institution signs:

- a) the head;
- b) the chief accountant;
- c) the head and chief accountant of the higher body;
- d) the head and chief accountant of the institution.

16. Paid bills for heat supply of the regional clinical hospital of Ivano-Frankivsk:

- a) city, 2271;
- b) state, 2270;
- c) regional, 2270;
- d) regional, 2240.

## **TOPIC 5. INTER-BUDGETARY RELATIONS AND THE SYSTEM OF BUDGETARY EQUALIZATION**

### ***1. Need for intergovernmental regulation***

Political governance structures differ widely between countries. In unitary governments, subnational governments are subordinate levels of the same government; federal structures contain sub-national governments that have constitutionally mandated independence and taxcollecting authority.

Yet for most sub-national governments in developing countries, transfers from the central government are the biggest source of revenue. Countries need to establish clear mechanisms for determining the allocation of resources to sub-national governments and the degree of sub-national government autonomy in the management of funds.

In many developing countries, sub-national governments behave much like line ministries: their budgets are incorporated into the national budget and their spending follows the same rules as other spending agencies.

In countries with a higher degree of decentralisation, sub-national governments have a greater degree of autonomy, with reporting and accountability structures at a local level rather than to the central government.

### ***2. Notion and Objective of Regulation of Interbudget Relations***

"Interbudget relations" means relations between the state, the Autonomous Republic of Crimea, and the territorial communities aimed at providing the relevant budgets with financial resources required to perform functions stipulated by the Constitution of Ukraine and Ukrainian laws.

The aim of regulating interbudget relations is to ensure the conformity between spending powers vested in budgets by legislative acts and financial resources that shall ensure exercise of the said powers.



### ***3. Types of Interbudget Transfers***

Interbudget transfers fall into:

- 1) base grant (a transfer provided from the State budget to local budgets for horizontal leveling of taxpaying capacity of territories);
- 2) subventions;
- 3) reverse grant (funds transferred to the State budget from local budgets for horizontal leveling of taxpaying capacity of territories);
- 4) additional grants.

### ***4. Transfers Made from the State Budget of Ukraine to Local Budgets***

The following interbudget transfers to local budgets may be provided for in the State Budget of Ukraine:

- 1) base grant;
- 2) subventions for implementation of government social protection programs;
- 3) additional grant to compensate for losses of local budgets as a result of provision of preferences established by the government;
- 4) subvention for implementation of investment programs (projects);
- 5) educational subvention;
- 6) medical subvention;
- 7) subvention for ensuring medical activities of certain State programs and comprehensive activities of programmatic nature;
- 8) subvention for financing activities of socioeconomic compensation of risks to the populations living in the surveillance zones;
- 9) subvention for the projects of liquidation of coalmining and peatmining enterprises and maintenance of dewatering facilities in safe regime based on co-financing terms (50 percent);

10) other additional grants and other subventions. The procedure and conditions of provision of subventions from the state budget to local budgets shall be defined by the Cabinet of Ministers of Ukraine.

The procedure and the conditions of provision of the subvention from the state budget to local budgets that has been determined by the law on the State Budget of Ukraine for the first time shall be approved by the Cabinet of Ministers of Ukraine within 30 days after the said law comes into effect. Distribution of additional grants among local budgets shall be carried out based on the criteria defined by the Cabinet of Ministers of Ukraine.

The amount of inter-budget transfers shall be approved in the State Budget of Ukraine separately for each of the respective local budgets provided that the grounds exist to provide and receive the respective interbudget transfers.

#### ***5. Horizontal Equalization of Taxpaying Capacity of Oblast Budgets***

Horizontal equalization of taxpaying capacity of oblast budgets shall be conducted for proceeds from the enterprise profit tax and personal income tax separately, with due account for the following parameters:

- 1) population size;
- 2) proceeds from the enterprise profit tax;
- 3) proceeds from the personal income tax;
- 4) taxpaying capacity indices of respective oblast budget, which are determined for the proceeds from the enterprise profit tax and personal income tax separately.

The taxpaying capacity index of a given oblast budget is a coefficient, which determines the level of taxpaying capacity of such budget compared to similar average indicator for all oblast budgets of Ukraine in per capita terms.

When implementing the equalization, the value of taxpaying capacity index of the respective oblast budget shall be taken into account.

If the index value is:

- within 0.9 to 1.1 - no equalization is implemented;

– less than 0.9 - a base grant is given to the respective oblast budget at the rate of 80 percent of the amount needed to achieve 0.9 of the value of such taxpaying capacity index of the respective budget;

– more than 1.1 - a reverse grant is transferred from the respective oblast budget at the proportion of 50 percent of the amount in excess of the 1.1 of such index value.

### ***6. Local Budget Taxpaying Capacity Index***

Taxpaying capacity indices of local budgets may not be changed and revised more than once a year, except in the following circumstances: creation of new or change of the status of already existing administrative-territorial units; change of location of taxpaying economic entities; change of tax legislation. Any change in the amount of proceeds from the enterprise profit tax and personal income tax in the respective budget period must be confirmed by collection agencies."

### ***7. Interbudget Transfers between Local Budgets***

The Verkhovna Rada of the Autonomous Republic of Crimea and local councils may provide for the following types of interbudget transfers in the relevant budgets:

- 1) subventions for the maintenance of shared facilities or the elimination of negative consequences of operation of the shared facilities;
- 2)) subventions for implementation of investment programs (projects), including for construction or rehabilitation of shared facilities;
- 3) grants and other subventions

Conditions for granting subventions referred to in this part of the Article are defined on the basis of the respective contract between the parties, unless otherwise established by this Code.

## ***8. Educational Subvention***

The educational subvention is used for payment of current expenditures of the following types of educational institutions:

- 1) general educational institutions of all levels;
- 2) school departments of training and education complexes "preschool educational institution - general educational institution," "general educational institution - preschool educational institution";
- 3) specialized schools (boarding schools), including boarding schools with in-depth learning of certain subjects and courses for in-depth education of children in science and arts, physical culture and sports, and other fields; lyceums with intensified military and physical training; lyceums (residential lyceums); gymnasium schools (residential gymnasium schools); collegium schools (residential collegium schools);
- 4) night (shift-type) schools;
- 5) general educational institutions for individuals in need of social support and rehabilitation: general educational boarding schools; general educational sanatorium boarding schools; special general educational boarding schools; general education institutions for orphaned children and children left without parental care; children's homes (except family-type family homes and foster families);
- 6) special general educational institutions for children in need of correction of physical and/or mental development, educational and rehabilitation centers. The above subvention can be used for implementation of activities of optimization of the network of the abovementioned educational institutions.

The Law on the State Budget of Ukraine shall approve the educational subvention amounts separately for the budget of the Autonomous Republic of Crimea, oblast and raion budgets, city (cities of Kyiv and Sevastopol, republican-subordinated cities of the Autonomous Republic of Crimea, and oblast-subordinated cities) budgets, and budgets of amalgamated territorial communities, which are

established according to law and prospective plan for the formation of community territories.

The educational subvention shall be distributed between the relevant budgets based on a formula to be developed by the central executive authority, which ensures the formulation and implements the State policy in the field of education, and shall be approved by the Cabinet of Ministers of Ukraine, and which should take into account, in particular, the following parameters:

- 1) number of pupils in general educational institutions in the urban and rural areas, and mountain localities;
- 2) maximum number of pupils per class;
- 3) adjusting reduction factors applied to the number of pupils in various types of general educational institutions and depending on the locality, where an institution is located. Also, the abovementioned subvention provides for a reserve, the amount of which may not exceed 1 percent of the total subvention amount, which is intended for undertaking the expenditures, which could not be accounted for by using the formula.

Any balance of funds of the educational subvention at the end of the budget period shall be kept at accounts of respective local budgets and shall be used in the next budget period with due account for the purpose of the subvention and for renewal of facilities and resources of the educational institutions listed in Part One of this article.

### ***9. Medical subvention***

Subvention funds can be directed to implement measures to optimize the network of health care.

The Law on State Budget of Ukraine approved medical subvention amounts separately for the budget of the Autonomous Republic of Crimea, oblast budgets and district budgets, city (Kyiv and Sevastopol, Autonomous Republic of Crimea

and oblast) budgets and budgets combined local communities, created by law and future plan of area communities.

Medical subvention is distributed among the respective budgets based on a formula developed by the central executive body, to form and implement the national policy in health care, and approved by the Cabinet of Ministers of Ukraine and shall take into account, inter alia, the following parameters:

- 1) the number of people of the local government area;
- 2) The adjustment coefficients that take into account differences in the cost of medical care;
- 3) the particular medical care in mountain towns.

The balance of funds for medical subvention at the end of the budget period are stored in the accounts of local budgets and can be used in the next budget period, taking into account the purpose of the subsidy, including updating the material and technical base of health care.

### ***10. Procedure for Making Interbudget Transfers***

Interbudget transfers from the state budget to local budgets shall be transferred from the state budget accounts by the agencies of the State Treasury of Ukraine to the budget of the Autonomous Republic of Crimea, oblast budgets, budgets of cities of Kyiv and Sevastopol, budgets of cities of republican subordination of the Autonomous Republic of Crimea and cities of oblast subordination, rayon budgets, and other local self-government budgets, for which interbudget transfers are allocated in the state budget.

The procedure of remittance of inter-budget transfers from the State budget to local budgets, reverse grant, as well as the procedure of remittance of inter-budget transfers between local budgets shall be determined by the Cabinet of Ministers of Ukraine and should ensure timeliness, regularity, security, and completeness of remittance of transfers. Remittance of the base grant, transfers, and the reverse grant shall be made by the bodies, which provide treasury servicing of budget funds,

every ten days in accordance with the implementation sheet of the State budget of Ukraine.

The Cabinet of Ministers of Ukraine, subject to agreement with the Budget Committee of the Verkhovna Rada of Ukraine, may allocate and reallocate subvention amounts and additional grants from the state budget to local budgets among local budgets within the total amount of the relevant subventions and additional grants.

At that, the volumes of subventions from the state budget to local budgets for implementation of state social protection programs may be redistributed, and the amounts of state budget subvention to local budget for holding elections of deputies of the Verkhovna Rada of the Autonomous Republic of Crimea, local councils, and village, settlement, and city mayors shall be allocated according to the procedure set forth by Article 61 of the Law of Ukraine "On Elections of Deputies of the Verkhovna Rada of the Autonomous Republic of Crimea, Local Councils, and Village, Settlement, and City Mayors."

A local State administration may pass a decision on allocation and reallocation of transfers from the State budget to local budgets in the period between sessions of the respective local council, provided the latter delegates such powers to the local State administration, with subsequent amending of the decision on local budgets.

## TEST TASKS FOR TOPIC 5

1. Revenues of local budgets that are not taken into account when determining the basic subsidy include:
  - a) local taxes and fees;
  - b) corporate income tax;
  - c) personal income tax;
  - d) a) and b).
2. Revenues of budgets of cities of district significance include:
  - a) 40% of the total personal income tax;
  - b) 60% of the total personal income tax;
  - c) 25% of the total personal income tax;
  - d) there is no correct answer.
3. The basic subsidy for rural, settlement budgets is approved by:
  - a) district council;
  - b) the Verkhovna Rada;
  - c) regional council;
  - d) there is no correct answer.
4. Tax capacity index is calculated:
  - a) on the basis of data on cash execution of the relevant budget, plus arrears, minus overpayment;
  - b) income from corporate income tax and personal income tax;
  - c) on the basis of data on the actual implementation of the relevant budget, plus losses from benefits;
  - d) correct answers a) and b).
5. Budget regulation is classified as:
  - a) vertical and parallel;
  - b) horizontal and vertical adjustment;
  - c) vertical and subvention;
  - d) horizontal and consistent.



6. The revenues of budgets of cities of regional significance include:

- a) 40% of the total personal income tax;
- b) 60% of the total personal income tax;
- c) 50% of the total amount of personal income tax;
- d) 25% of the total personal income tax.

7. The intergovernmental transfer to equalize the revenue capacity of the budget, which receives it - is:

- a) basic subsidy;
- b) equalization subvention;
- c) lending less repayment;
- d) none of the answers is incorrect.

8. The amount of money that is allocated from the budget of the higher level to the budget of the lower level for a specific purpose and is refundable in case of its misuse - it is:

- a) subvention;
- b) budget subsidy;
- c) basic subsidy;
- d) no answer is correct.

9. The level of financial support of tasks and functions guaranteed by the state within the limits of available budgetary funds which are carried out accordingly by Council of Ministers of the Autonomous Republic of Crimea, local state administrations, executive bodies of local government used for definition of volume of interbudgetary transfers:

- a) financial ratio of budget security;
- b) budget standard of financial security;
- c) intergovernmental equalization norms;
- d) none of the answers is incorrect.

10. A reverse subsidy is calculated for local budgets if the tax capacity index is determined:

- a) 1-1.1;

- b) less than 0.9;
- c) more than 1.1;
- d) all the answers are incorrect.

## TOPIC 6. BUDGET DEFICIT AND SOURCES OF ITS FINANCING

### *1. Budget Deficit and Surplus, Balance of Budget Funds*

Approval of budget running a **deficit** is allowed when there are reasonable sources of financing of the state budget.

**Budget surplus** is approved in order to settle debt, maintain the established current balance of budget funds, and purchase the securities.

**Current balance of budget funds** is a portion of balance of general fund of the corresponding budget generated to cover temporary cash gaps. Current balance of budget funds shall not exceed 2 percent of the target expenditures of the general fund of the budget, and is approved in the Law on the State Budget of Ukraine (decision on local budget). At the end of the budget period, the current balance of budget funds shall be maintained within the established amount.

The excess of the balance of the general fund of the budget over the current balance of budget funds at the end of the budget period constitutes the available balance of budget funds used to effect the budget expenses in accordance with the Law on the State Budget of Ukraine and/or changes hereto (changes to the decision on local budget).

### *2. Types of Budget Deficits*

There can be different types of deficit in a budget depending upon the types of receipts and expenditure we take into consideration. Accordingly, there are three concepts of deficit, namely:

1. Revenue deficit
2. Fiscal deficit and
3. Primary deficit.
4. Monetised Deficit.

Although budget deficit and revenue deficit are old ones but fiscal deficit and primary deficit are of recent origin.

**Following are three types (measures) of deficit:**

1. **Revenue deficit** = Total revenue expenditure – Total revenue receipts.

Revenue deficit is excess of total revenue expenditure of the government over its total revenue receipts. It is related to only revenue expenditure and revenue receipts of the government. Alternatively, the shortfall of total revenue receipts compared to total revenue expenditure is defined as revenue deficit.

Revenue deficit signifies that government's own earning is insufficient to meet normal functioning of government departments and provision of services. Revenue deficit results in borrowing. Simply put, when government spends more than what it collects by way of revenue, it incurs revenue deficit. Mind, revenue deficit includes only such transactions which affect current income and expenditure of the government.

2. **Fiscal deficit** = Total expenditure – Total receipts excluding borrowings.

Fiscal deficit is defined as excess of total budget expenditure over total budget receipts excluding borrowings during a fiscal year. In simple words, it is amount of borrowing the government has to resort to meet its expenses. A large deficit means a large amount of borrowing. Fiscal deficit is a measure of how much the government needs to borrow from the market to meet its expenditure when its resources are inadequate.

3. **Primary deficit** = Fiscal deficit-Interest payments.

Primary deficit is defined as fiscal deficit of current year minus interest payments on previous borrowings. In other words whereas fiscal deficit indicates borrowing requirement inclusive of interest payment, primary deficit indicates borrowing requirement exclusive of interest payment (i.e., amount of loan).

We have seen that borrowing requirement of the government includes not only accumulated debt, but also interest payment on debt. If we deduct «interest payment on debt» from borrowing, the balance is called primary deficit.

4. **Monetised deficit** is the extent to which the RBI helps the central government in its borrowing programme. In other words, monetised deficit means the increase in the net RBI credit to the central government, such that the monetary needs of the government could be met easily.

### ***3. Sources of Budget Financing***

Sources of budget financing are:

- 1) proceeds from government (local) domestic and external borrowings;
- 2) proceeds from privatization of state property (including other revenues directly related to privatization process) - as regards the state budget;
- 3) withdrawal of budget funds from deposits, and proceeds from selling/presenting securities;
- 4) available balance of budget funds subject to conditions stipulated hereby.

Money issued by the National Bank of Ukraine cannot constitute a source of budget financing.

Sources for the formation of the special fund of the State budget of Ukraine with regard to financing are as follows:

- 1) credits (loans) attracted by the State from foreign states, banks, and international finance organizations for implementation of investment programs/projects;
- 2) other receipts defined by the Law on the State Budget of Ukraine.

If the amount of a certain type of financing sources of the State budget decreases against the amount stated by the Law on the State Budget of Ukraine, it is permissible under decision of the Cabinet of Ministers of Ukraine coordinated with the Committee on Budget of the Verkhovna Rada of Ukraine to increase the amount of other type of State budget financing sources, while maintaining the ceiling of the annual deficit of the State budget.

## TEST TASKS FOR TOPIC 6

1. The deficit, which is a consequence of GDP reduction is:
  - a) hidden;
  - b) active;
  - c) passive;
  - d) forced.
2. If revenues exceed regulatory expenditures, it is the budget:
  - a) surplus;
  - b) deficient;
  - c) balanced;
  - d) no answer is correct.
3. The deficit, in which budget funds are used to invest in the economy in order to grow GDP is:
  - a) passive;
  - b) active;
  - c) conscious;
  - d) no answer is correct.
4. The deficit, which arises as a result of overstatement of planned revenues and the inclusion in their composition of sources to cover the deficit is:
  - a) conscious;
  - b) open;
  - c) hidden;
  - d) passive.
5. The following local budgets can be adopted with a deficit:
  - a) ARC;
  - b) urban;
  - c) district;
  - d) a) and b).

6. The deficit that arises as a result of discretionary fiscal policy, which provides for targeted changes in government spending is:

- a) conscious;
- b) open;
- c) active;
- d) hidden.

7. The officially recognized deficit in the law on the state budget is:

- a) hidden;
- b) open;
- c) forced;
- d) conscious.

8. Deficit, in which funds are used to cover current expenditures is:

- a) active;
- b) conscious;
- c) passive;
- d) hidden.

9. The source of covering the budget deficit is:

- a) government loans;
- b) revenues from privatization;
- c) issue of government bonds of domestic government loan;
- d) all previous answers are correct.

10. The budget deficit is caused by a cash gap in budget execution, it is:

- a) stable;
- b) active;
- c) conscious;
- d) temporary.

## TOPIC 7. BUDGET EXPENDITURES FOR SERVICING PUBLIC DEBT

### *1. Public debt*

In public finance, **government debt**, also known as **public interest, public debt, national debt** and **sovereign debt**, is the total amount of debt owed at a point in time by a government or state to lenders. Government debt can be owed to lenders within the country (also described as internal debt) or owed to foreign lenders (external debt). Government debt contrasts to the annual government budget deficit, which is a flow variable that equals the difference between government receipts and spending in a single year. The debt is the accumulation of all prior deficits. The government is typically obligated to pay interest on its debt.

Another common method of analysing government debt is by duration until repayment is due. Short-term debt is generally considered to be for one year or less, and long-term debt is for more than ten years. Medium-term debt falls between these two boundaries. Short-term debt is not to be confused with debt falling due, short-term debt is often urgent funding and is risky and hence more expensive. A broader definition of government debt may consider all government liabilities, including all current pension accounts as well as all legally binding contracts for goods and services both internally and internationally, due by a given date.

Public debt is a total amount of debt obligations of the state on redeeming loans (borrowings) received and not repaid as of a reporting date resulting from public borrowing.

Governments can create debt by issuing government bonds and bills. Some countries may be able to borrow directly from a supranational organization (e.g. the World Bank) or international financial institutions.

A central government with its own currency can pay for its nominal spending by creating money *ex novo*, although typical arrangements leave money creation to central banks. In this instance, a government issues securities to the public not to



raise funds, but instead to remove excess bank reserves (caused by government spending including debt servicing cost that is higher than tax receipts) and «...create a shortage of reserves in the market so that the system as a whole must come to the Central Bank for liquidity».

## ***2. When Public Debt Is Good***

In the short run, public debt is a good way for countries to get extra funds to invest in their economic growth. Public debt is a safe way for foreigners to invest in a country's growth by buying government bonds.

This is much safer than foreign direct investment. That's when foreigners purchase at least a 10% interest in the country's companies, businesses, or real estate. It's also less risky than investing in the country's public companies via its stock market. Public debt is attractive to risk-averse investors since it is backed by the government itself.

When used correctly, public debt improves the standard of living in a country. It allows the government to build new roads and bridges, improve education and job training, and provide pensions. This spurs citizens to spend more now instead of saving for retirement. This spending by private citizens further boosts economic growth.

## ***3. When Public Debt Is Bad***

Governments tend to take on too much debt because the benefits make them popular with voters. Increasing the debt allows government leaders to increase spending without raising taxes. Investors usually measure the level of risk by comparing debt to a country's total economic output, known as gross domestic product (GDP). The debt-to-GDP ratio gives an indication of how likely the country can pay off its debt.

Investors usually don't become concerned until the debt-to-GDP ratio reaches a critical level.

When debt approaches a critical level, investors usually start demanding a higher interest rate. They want more return for the greater risk. If the country keeps spending, then its bonds may receive a lower S&P rating. This indicates how likely it is that the country will default on its debt.

As interest rates rise, it becomes more expensive for a country to refinance its existing debt. In time, income has to go toward debt repayment, and less toward government services. Much like what occurred in Europe, a scenario like this could lead to a sovereign debt crisis.

In the long run, public debt that's too large is like driving with the emergency brake on. Investors drive up interest rates in return for the increased risk of default. That makes the components of economic expansion, such as housing, business growth, and auto loans, more expensive. To avoid this burden, governments need to carefully find that sweet spot of public debt. It must be large enough to drive economic growth but small enough to keep interest rates low.

#### ***4. Government and sovereign bonds***

A government bond is a bond issued by a national government. Such bonds are most often denominated in the country's domestic currency. Sovereigns can also issue debt in foreign currencies: almost 70% of all debt in a sample of developing countries from 1979 through 2006 was denominated in US dollars. Government bonds are sometimes regarded as risk-free bonds, because national governments can if necessary create money *de novo* to redeem the bond in their own currency at maturity. Although many governments are prohibited by law from creating money directly (that function having been delegated to their central banks), central banks may provide finance by buying government bonds, sometimes referred to as monetizing the debt.

Government debt, synonymous with sovereign debt, can be issued either in domestic or foreign currencies. Investors in sovereign bonds denominated in foreign currency have exchange rate risk: the foreign currency might depreciate against the investor's local currency. Sovereigns issuing debt denominated in a foreign currency may furthermore be unable to obtain that foreign currency to service debt. In the 2010 Greek debt crisis, for example, the debt is held by Greece in Euros, and one proposed solution (advanced notably by World Pensions Council (WPC) financial economists) is for Greece to go back to issuing its own drachma. This proposal would only address future debt issuance, leaving substantial existing debts denominated in what would then be a foreign currency, potentially doubling their cost.

### ***5. Incurring State (Local) Borrowing and Managing State (Local) Debt***

The State borrowing is incurred within the limits set out by the Law on the State Budget of Ukraine in keeping within the State debt ceiling as of the end of budget period. The right to make domestic and foreign government borrowings belongs to the State represented by the member of the Cabinet of Ministers of Ukraine responsible for the formulation and implementation of the State budget policy or by a person discharging his/her duties under authorization of the Cabinet of Ministers of Ukraine.

The Cabinet of Ministers of Ukraine defines conditions to make government borrowings, including their type, currency, term, and interest rate of a government borrowing. In the event the volume of proceeds from domestic (foreign) government borrowings decreases as compared to the volume established by the Law on the State Budget of Ukraine as a result of deterioration of conditions of such borrowings and/or financial market conditions, it is permissible to increase the amount of funds from foreign (domestic) government borrowing subject to the established limit of public debt.

In the event the volume of public debt settlement payments decreases (increases), as a result of improvement (deterioration) of financial market conditions, as compared to the volume established by the Law on the State Budget of Ukraine, the volume of government borrowings may be decreased (increased) subject to the volume of financing of the state budget on debt transactions established by the Law on the State Budget of Ukraine.

Loans (borrowings) from foreign countries, banks, and international financial organizations to implement investment programs (projects) are attracted by the State under international agreements of Ukraine and belong to the foreign government borrowings. Funds for implementing such investment programs (projects), including costs to service and repay the corresponding loans (borrowings) are stipulated by the Law on the State Budget of Ukraine for the whole term of said loan agreements. The respective international agreements require no ratification, unless otherwise stated by law.

The Verkhovna Rada of the Autonomous Republic of Crimea and city councils enjoy the right to make local domestic borrowings. Local external borrowings may be made solely by the Verkhovna Rada of the Autonomous Republic of Crimea, Kyiv and Sevastopol City Councils, and City Councils of oblast-subordinated cities. At the same time, local external borrowings by obtaining loans (borrowings) from international financial organizations may be made by all municipal councils.

The right to make local borrowings within the limits defined by the decision on local budget, belongs to the Autonomous Republic of Crimea, territorial community of a city as represented by the director of the local financial body following the commission of the Verkhovna Rada in the Autonomous Republic of Crimea, or a city council.

A government-funded institution shall have no right to make any type of borrowing (except for cases provided by this Code) or issue any loans from the budget to legal entities or individuals (unless the respective budget allocations to issue loans from the budget are established).

In making government borrowings and issuing government guarantees, the member of the Cabinet of Ministers of Ukraine responsible for the formulation and implementation of State budget policy or a person discharging his/her duties, following the decision of the Cabinet of Ministers of Ukraine, is entitled to take on commitments, on behalf of Ukraine, related to making such borrowings, including waiver of sovereign immunity in potential legal proceedings related to repayment of loans (borrowings), throughout the term of obligation to repay the borrowed funds.

Costs to service and repay the government (local) debt are incurred by the central executive body, which ensures formulation of the State budget policy (local financial body) according to the loan agreements and regulations under which the public debt obligations arise (debt obligations of the Autonomous Republic of Crimea or a territorial communities), irrespective of the volume of funds intended for this purpose by the Law on the State Budget of Ukraine (decision on the local budget). In the event expected volume of costs to service and repay the public debt exceeds the volume of resources intended for this purpose by the Law on the State Budget of Ukraine, the central executive body, which ensures formulation of the State budget policy, shall immediately advise the Cabinet of Ministers of Ukraine to that effect. The Cabinet of Ministers of Ukraine shall immediately advise the Verkhovna Rada of Ukraine on the expected excess of such costs, and within two weeks submits their proposed amendments to the Law on the State Budget of Ukraine. In the event the expected volume of costs to service and repay the local debt exceeds the volume of funds intended for this purpose by the decision on local budget, the Verkhovna Rada of the Autonomous Republic of Crimea and a city council introduce corresponding changes to the decision on local budget.

To efficiently manage the public/local debt and/or liquidity of the Single Treasury Account, the central executive body, which ensures formulation of the State budget policy (the Verkhovna Rada of the Autonomous Republic of Crimea, a city council, or according to their decision - a local financial body) is entitled to carry out transactions with public (local) debt, including exchange, issuance, purchase, repurchase, and selling of public debt obligations (debt obligations of the

Autonomous Republic of Crimea or territorial community of a city) subject to the limit of public (local) debt amounts at the end of the budget period.

The central executive body, which ensures formulation of the State budget policy (local financial body) could engage economic entities for the provision of agency, consultancy, rating, and other services needed for managing the public (local) debt at the expense of the State (local) budget within the scope of budget allocations for servicing the public (local) debt.

The member of the Cabinet of Ministers of Ukraine responsible for the formulation and implementation of State budget policy or a person discharging his/her duties is entitled, subject to the approval of the National Bank of Ukraine and within the current budget period, to deposit temporarily available funds of the Treasury Single Account and funds of the state budget accounts denominated in foreign currencies on a competitive basis and/or by holding auctions, or by purchasing government securities with subsequent repayment of such funds before the end of the current budget period. The director of a local financial body, following the decision of the Verkhovna Rada of the Autonomous Republic of Crimea or the corresponding local council, and within the current budget period, is entitled to deposit the temporarily available funds of local budgets on a competitive basis or by purchasing government securities, or securities issued by the Autonomous Republic of Crimea or the corresponding city council with subsequent repayment of such funds before the end of the current budget period. The procedure for conducting transactions stipulated by this part of the Article is defined by the Cabinet of Ministers of Ukraine subject to the following requirements: establishing the minimum yield rate on purchasing securities, concluding contracts on purchasing securities - when purchasing securities; concluding banking deposit contract with the bank office - when depositing funds . A contract on purchase of government securities, or securities issued by the Autonomous Republic of Crimea, or a corresponding city council, according to this part of this Article, shall contain a provision requiring that the parties to the said contract shall make reverse purchase/sale of the said securities before the end of the current budget period.

The terms and condition of issue and circulation of government securities and securities issued by the Autonomous Republic of Crimea, and by respective city council shall be set subject to the Law of Ukraine "On Securities and Stock Market." The central executive body, which ensures formulation of the State budget policy, shall promulgate a schedule of conducting auctions for placement of government securities on the domestic market. Such a schedule could be updated following any change in the terms and conditions of government borrowing and/or financial market conditions.

### ***6. State and Local Guarantees***

State guarantees to ensure full or partial fulfillment of debt obligations by Ukrainian resident business entities may be issued by decision of the Cabinet of Ministers of Ukraine or based on international agreements of Ukraine, solely within the limits and in the areas defined by the Law on the State Budget of Ukraine. Under authority of the Cabinet of Ministers of Ukraine, the relevant juristic actions based on its decisions are taken by the member of the Cabinet of Ministers of Ukraine responsible for the formulation and implementation of the State budget policy or a person discharging his/her duties.

Local guarantees may be issued under the decision of the Verkhovna Rada of the Autonomous Republic of Crimea or a corresponding municipal council to ensure full or partial fulfillment of debt obligations by Ukrainian resident business entities conducting their business in housing and utilities sector of the economy, located on the corresponding territories, and implementing, within such territories, the investment programs (projects) aimed at development of municipal infrastructure or introduction of resource-saving technologies.

State (local) guarantee shall be issued on conditions of repayment, maturity, and enforceability of obligations as envisaged by law. A juristic action of granting a State/local guarantee shall be executed in writing and shall set out: the guarantee subject matter; full name and location of the business entity and creditor (if performance under credit agreement is to be guaranteed); the credit/loan amount;

scope of guarantee obligations and their performance procedure; and conditions for the occurrence of a guarantee event; and the guarantee validity period. Making of an agreement between the central executive body, which ensures formulation of the State budget policy (respective local financial body) and the economic entity on repayment of any debt of such economic entity before the State (Autonomous Republic of Crimea or a city's territorial community) for the performance of guarantee obligations is a mandatory condition for granting a State/local guarantee. The material conditions of such an agreement should include undertakings of the economic entity to: make payment for the provision of State/local guarantee; provide property or other security against the performance of guarantee obligations; reimburse any costs incurred by the State/local budget related to the performance of guarantee obligations; pay any penalty interest for late reimbursement of said costs. The penalty interest is charged for each day of delay in paying the debt in the national currency at the rate of 120 percent of the annual discount rate of the National Bank of Ukraine according to the official hryvnya exchange rate against foreign currencies established by the National Bank of Ukraine as of the date of charging such penalty interest; authorize the guarantor to make direct debit transfer by the bank of funds from economic entity's accounts for guarantor's benefit.

State/local guarantee shall not be granted for covering debt obligations of economic entities, where funds of the State/local budget are envisaged as a direct source for repayment of credits/loans (except for the debt obligations arising under credits/loans of international financial organizations).

The economic entities subject to decision on issuance of credits/loans attracted by the State (Autonomous Republic of Crimea or city's territorial community) or on granting State/local guarantees shall provide either property or other security for the performance of obligations and pay into the State budget of Ukraine (respective local budgets) a fee for receipt of same at the amount to be set by the Cabinet of Ministers of Ukraine (Verkhovna Rada of the Autonomous Republic of Crimea or local council), unless otherwise stipulated by the Law on the State Budget of Ukraine (decision on a local budget).



If a decision is made to provide credits/loans attracted by the State (Autonomous Republic of Crimea or city's territorial community) or under the State/local guarantees, for economic entities managing the State/municipal property, the need for the provision by such economic entities of property security, its amount, and type shall be established by the Cabinet of Ministers of Ukraine with regard to State property (Verkhovna Rada of the Autonomous Republic of Crimea with regard to property of the Autonomous Republic of Crimea, and respective local council - with regard to municipal property).

Payments related to meeting the guarantee obligations of government (the Autonomous Republic of Crimea or territorial community of a city) shall be effected in accordance with the corresponding contracts irrespective of the volume of funds intended for this purpose by the Law on the State Budget of Ukraine (decision on the local budget), and in line with the same procedure as stipulated by part 6 of Article 16 of this Code with the payments in question being stated as loans issued from the budget to business entities whose liabilities are guaranteed.

In case the government (the Autonomous Republic of Crimea or territorial community of a city) meet their guarantee obligations to creditors by effecting payments against funds of the state (local) budget or by concluding the respective contracts with such creditors to restructure the amounts which are guaranteed to be repaid, from the moment the government met such obligations the business entities whose obligations are guaranteed face an overdue debt to the government (the Autonomous Republic of Crimea or territorial community of a city) on loans (borrowings) attracted against the government (local) guarantees in the amount of actual expenses of the state (local) budget and/or such restructured amounts, while the government (the Autonomous Republic of Crimea or territorial community of a city) receives the rights of creditor and the right to demand repayment of debts from business entities according to the procedure established by the law, unless such rights were stipulated by the relevant contracts. In the event the contract between the Cabinet of Ministers of Ukraine (the Council of Ministers of the Autonomous Republic of Crimea or executive authority of a city council based on the decision of

the Verkhovna Rada of the Autonomous Republic of Crimea or a city council) and a business entity stipulates obligations of such a business entity to repay and service loans (borrowings) attracted by the government (the Autonomous Republic of Crimea or territorial community of a city), non-fulfillment or improper fulfillment of such contractual obligations results in the right to collect the amounts overdue in full being transferred to the government (the Autonomous Republic of Crimea or territorial community of a city) irrespective of the status of fulfillment of obligations by the government (the Autonomous Republic of Crimea or territorial community of a city) on such loans (borrowings).

The amounts overdue payable by the business entity to the government (the Autonomous Republic of Crimea or territorial community of a city) on a loan (borrowing) attracted by the government (the Autonomous Republic of Crimea or territorial community of a city) or under a government (local) guarantee, as well as on a loan issued from the budget (including loan (borrowing) origination fees and penalties) is collected from the business entity by internal revenue bodies being collection agencies for such debts according to the procedure stipulated by the Tax Code of Ukraine or other law, including settlement of such debt against this business entity's property.

The statute of limitations shall not apply to the claims for repayment of such debt of a business entity to the government (the Autonomous Republic of Crimea or a territorial community of a city).

In case, based on the court ruling, the government (the Autonomous Republic of Crimea or territorial community of a city) was denied collecting the debt to the government (the Autonomous Republic of Crimea or territorial community of a city) on loans (borrowings) attracted by the government (the Autonomous Republic of Crimea or territorial community of a city) or under a government (local) guarantee, as well as on a loan issued from the budget, the state tax authorities appeal against the ruling according to the procedure established by the law until the ruling is made by higher specialized courts and the Supreme Court of Ukraine.

The central executive body, which ensures formulation of the State budget policy, is entitled to engage business entities to represent government authorities in court hearings on collecting debts to the government on loans (borrowings) attracted by the government or under the government guarantees, as well as on loans issued from the budget, including in bankruptcy proceedings, collecting of which the tax authorities were refused. The central executive body, which ensures formulation of the State budget policy, makes payments for such services of business entities from the state budget funds within the limits of corresponding budget allocations.

The central executive body, which ensures formulation of the State budget policy, is entitled to sell, at the open auctions, the right to claim the repayment of debt to the government past due for over three years on loans (borrowings) attracted by the government or under the government guarantees, including loans from the budget, according to the procedure established by the Cabinet of Ministers of Ukraine. The Verkhovna Rada of the Autonomous Republic of Crimea and the corresponding local councils may establish the procedure for selling the right to claim the repayment of debt past due for over three years on loans (borrowings) attracted under local guarantees, as well as on loans from the corresponding local budgets subject to the requirements established by the Cabinet of Ministers of Ukraine.

Restructuring of business entities' debts to the government (the Autonomous Republic of Crimea or territorial community of a city) on loans (borrowings) attracted by the government (the Autonomous Republic of Crimea or territorial community of a city) or under the government (local) guarantees or on loans from the budget is prohibited, unless in the course of reorganization of such a business entity it was arranged to be repaid by installments with participation of the investor assuming a joint obligation to repay such debts within three years based on the contract concluded between the business entity, the investor, and the state tax authority. In this regard, the amount of penalty accrued as a result of borrower's failure to meet such obligations for the restructured amount of debt is written off.

Writing off the business entities' debts to the government (the Autonomous Republic of Crimea or territorial community of a city) on loans (borrowings) attracted by the government (the Autonomous Republic of Crimea or territorial community of a city) or under the government (local) guarantees against loans from the budget other than debts of business entities duly declared bankrupt whose demands for debt settlement were not satisfied in view of insufficiency of their assets and which were subject to the state deregistration as legal entities in view of being declared bankrupt, and other than debts for collection of which the court issued and enacted a ruling under which the debts were not payable to the government and/or collection of which is not enforceable in court of law or impracticable. The procedure for writing off such debts is defined by the Cabinet of Ministers of Ukraine.

For the term of agreement on local guarantee, the Verkhovna Rada of the Autonomous Republic of Crimea and city councils stipulate in their respective decision on local budget the funds to meet guarantee obligations on payments maturing in the respective budget period. Herewith, such funds are provided: with respect to the contracts secured by guarantee, where the guarantee event already emerged, subject to guarantee payments in the amount equal to the amount of payments under those contracts; with respect to other contracts secured by guarantee - not less than 50 percent of amounts of payments under those contracts.

### ***7. Limits of Public (Local) Debt and Government (Local) Guarantees***

The limit of public (local) debt and guaranteed debt, the limit of government (local) guarantees to be issued are defined for each budget period by the Law on the State Budget of Ukraine (decision on local budget).

The total amount of public debt and state-guaranteed debt at the end of budget period shall not exceed 60 percent of annual nominal volume of Ukrainian gross domestic product. If this ceiling is expected to be exceeded, the Cabinet of Ministers of Ukraine shall immediately contact the Verkhovna Rada of Ukraine for

authorization to temporarily exceeds such ceiling, and shall submit for approval its action plan to bring the total State and State-guaranteed debt amount to the established requirements.

Should this threshold be exceeded, the Verkhovna Rada of the Autonomous Republic of Crimea and the corresponding municipal council shall take measures to bring the said total amount of debts.

To ensure compliance with the threshold of the public (local) debt and government (local) guarantee, the central executive body, which ensures formulation of the State budget policy, shall keep a Register of Public Debt and State-Guaranteed Debt, Register of Government Guarantees, and Register of Local Borrowing and Local Guarantees. The Register of Public Debt and State-Guaranteed Debt is an information system of debt and guarantee obligations of the State, including the conditions of credit agreement and issue of government securities, and the terms and condition for the provision of government guarantees, details about the status of public debt servicing and repayment. The Register of Government Guarantees is an information system, which contains details about the government guarantees granted throughout the budget period. The Register of Local Borrowing and Local Guarantees is an information system, which contains details on the local borrowing incurred and local guarantees granted.

## TEST TASKS FOR TOPIC 7

1. The change in the yield of the loan is:
  - a) deferral;
  - b) cancellation;
  - c) conversion;
  - d) no answer is correct.
2. The set of measures of the state, its specific actions to pay income to creditors, repayment of loans is:
  - a) public debt management;
  - b) the importance of public debt;
  - c) the role of public debt;
  - d) the appointment of public debt.
3. The state internal debt of Ukraine serves:
  - a) CMU;
  - b) NBU;
  - c) MFPs;
  - d) all answers are correct.
4. Repayment of debt by issuing new loans - this is:
  - a) public debt management;
  - b) refinancing of public debt;
  - c) conversion;
  - d) cancellation of public debt
5. The maximum amount of domestic debt of Ukraine, its structure, sources and maturities shall be set by:
  - a) the Verkhovna Rada of Ukraine;
  - b) the Cabinet of Ministers of Ukraine;
  - c) Ministry of Finance of Ukraine;
  - d) State Treasury Service of Ukraine.

6. Operations related to the receipt of budget funds on terms of return, payment and maturity as a result of which there are obligations of the state, the Autonomous Republic of Crimea or local government to creditors are:

- a) borrowing;
- b) credit;
- c) loan;
- d) none of the answers is incorrect.

7. Combining several loans into one is:

- a) consolidation;
- b) unification;
- c) postponement;
- d) no answer is correct.

8. The right to carry out state internal and external borrowings, within the limits set by the Law on the State Budget of Ukraine, belongs to the state in the person of:

- a) the Chairman of the National Bank of Ukraine or a person acting on his behalf, on behalf of the Cabinet of Ministers of Ukraine;
- b) the Head of the Debt Agency or a person acting on his behalf, on behalf of the Minister of Finance of Ukraine;
- c) The Head of the State Treasury Service of Ukraine or a person performing his duties, on behalf of the Minister of Finance of Ukraine.
- d) there is no correct answer.

9. Repayment of liabilities incurred in the current or previous budget periods are:

- a) powers;
- b) obligations;
- c) payment;
- d) allocation.

10. The increase in the duration of a previously issued loan is:

- a) consolidation;
- b) unification;

- c) postponement;
- d) no answer is correct.

11. A set of measures taken by the state to place securities, repay loans, pay interest on them, determine the conditions and procedure for issuing new government securities - these are:

- a) public debt management;
- b) public debt service;
- c) the role of public debt;
- d) the appointment of public debt.

12. Management of the state internal debt of Ukraine carries out:

- a) the Cabinet of Ministers of Ukraine;
- b) the National Bank of Ukraine;
- c) Debt Agency of Ukraine;
- d) State Treasury Service of Ukraine.



## TOPIC 8. BUDGET EXPENDITURES ON SOCIAL PROTECTION OF THE POPULATION AND SOCIAL SPHERE

### *1. Social protection*

**Social protection**, as defined by the United Nations Research Institute for Social Development, is concerned with preventing, managing, and overcoming situations that adversely affect people's well-being. Social protection consists of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to manage economic and social risks, such as unemployment, exclusion, sickness, disability, and old age. It is one of the targets of the United Nations Sustainable Development Goal 10 aimed at promoting greater equality.

The most common types of social protection:

1. **Labor market interventions** are policies and programs designed to promote employment, the efficient operation of labor markets, and the protection of workers.
2. **Social insurance** mitigates risks associated with unemployment, ill-health, disability, work-related injury, and old age, such as health insurance or unemployment insurance.
3. **Social assistance** is when resources, either cash or in-kind, are transferred to vulnerable individuals or households with no other means of adequate support, including single parents, the homeless, or the physically or mentally challenged.

### *2. Net (after tax) social expenditure*

The detailed social expenditure programmer data discussed above is indispensable for in-depth monitoring of welfare policy trends and changes therein, but they do not account for how tax systems affect public and private spending on social protection. And as the overall effect can be considerable and vary across countries, it affects cross-national comparisons of social expenditure.

General tax revenue is used to finance public social spending, and sometimes revenue streams (i.e. social security contributions) are earmarked for that purpose. However, tax systems also affect levels of social expenditure, and broadly speaking it does so in three ways:

1. Direct taxation of benefit income: Governments levy income tax and social security contributions on cash transfers to beneficiaries, in which case redistribution of resources is lower than suggested by gross spending indicators.

2. Indirect taxation of consumption by benefit recipients: Benefit income is provided to finance consumption of goods and services. Indirect taxes reduce the consumption which can be financed out of a given level of benefit income.

3. Tax breaks for social purposes: Governments also make use of the tax system to directly pursue social policy goals. Fiscal measures with social effects are those which can be seen as replacing cash benefits (e.g. child tax allowances) or stimulating the provision of private benefits (e.g. tax relief towards the provision of private health plans). Tax breaks for social purposes (TBSPs) can be directly awarded to households, but also includes tax relief for employers and private funds that ultimately benefit households (e.g. favorable tax treatment of employer-benefits provided to households, favorable tax treatment of private funds).

The adjustments for direct and indirect taxation of benefits do not affect service spending, even though such services, e.g. pharmaceutical products, can be subject to indirect taxation. Data on spending on social services that are subject to indirect taxation and at what rate is not available on a comprehensive basis.

The effect of indirect taxation on social expenditure totals is calculated using economic aggregates as in the OECD National Accounts and information in the OECD Revenue Statistics (see below). Because of the differences in tax and information systems there will always remain cross-country differences in estimating the amount of direct taxation levied over cash benefits.

### *3. Analysis of the impact of social sphere budget financing on economic development of Ukraine*

Government intervention in the social sphere of Ukraine covers the following areas:

- legal regulation, which involves developing a system of laws, regulations, norms and directives on social policy;
- provision of information, including statistical information and other public reports;
- state regulation of social policy through a variety of methods and tools providing direct or indirect government intervention in the social sphere;
- financial support.

The last component – financial provision of social services – will be further analysed in a more detailed way. At the state level it is usually provided through governmental/budget funding. Budget expenditures are aimed at social sphere financing, they are very versatile, as perform different roles in the reproduction process (current or capital), and have different sources of funding (in state and local budgets) as well as implementation periods (current, medium- and long-term), and also various functional, departmental and target purposes.

Social spending is the largest for local budgets as it was 82% at the end of 2020. In general, there is a tendency of reducing social spending since 2018: by 8% in consolidated budget, by 10% in state budget and 4% in local budgets.

This is a negative fact because it is the evidence of socialization reduction.

The share of social costs in the European Union is slightly larger than in Ukraine (in 2018 – by 4%, while the average for the period is 6%). In addition, there is a gradual increase in the analyzed rate of 66% in 2007 to 68% in 2018 in the EU. In general, social costs' share in Ukraine was lower than 50% for the analyzed period, which is, according to some scientists, the limiting factor for developed countries. Let us have a more detailed look at different expenditures share in the consolidated budget of Ukraine, 2020.

Social expenditures in Ukraine as of 2020 took the most of the budget, namely 56%. This reveals the social orientation of the budget in Ukraine. Moreover,

spending on social security have the largest share – 26%, followed by spending on education (17%), general state functions (17%) and healthcare (11%).

The smallest share belongs to the environmental expenditures (1%), utilities and also spiritual and physical development – 2% for each item. Social sphere development also influences on such economic performance indices, as labor productivity and employment increase, technological and economic development etc.

Economic growth is the country's key indicator that determines long-term sustainable economic development, which is the process of steady increase in gross domestic product in the long run without violations of equilibrium in the short term.

## TEST TASKS FOR TOPIC 8

1. Article 46 of the Constitution of Ukraine provides for the right of citizens to:
  - a) social security;
  - b) social protection;
  - c) social insurance;
  - d) social benefits.
2. Who is considered the founder of the state social security system?
  - a) British economist Lord William Beveridge;
  - b) German Chancellor Otto von Bismarck;
  - c) Chancellor of the Exchequer Nigel Lawson;
  - d) the founder is unknown.
3. In which country was the social security system first introduced?
  - a) in Germany;
  - b) in England;
  - c) in Switzerland;
  - d) in Sweden.
4. Social benefits are divided into the following groups:
  - a) benefits and privileges;
  - b) cash payments and in-kind services;
  - c) pensions and services;
  - d) benefits and advantages.
5. Targeted social assistance to low-income families is provided by:
  - a) pension fund;
  - b) local budget;
  - c) the state budget;
  - d) the social insurance fund.
6. Which of the following payments does not apply to social insurance:
  - a) pension;
  - b) scholarship;

- c) unemployment benefits;
- d) assistance in connection with temporary disability.

7. Assistance for children under guardianship or custody is granted in the amount of:

- a) the difference between the subsistence level per child and the average monthly amount of alimony and pensions received per child;
- b) the difference between the subsistence level per child and the average monthly income of the family that took the child into care;
- c) subsistence level per child;
- d) no answer is correct.

8. Assistance at the birth of a child is provided:

- a) exclusively to the mother of the child;
- b) one of the child's parents, guardian, who permanently live with the child;
- c) only to the child's parents who permanently live with the child;
- d) no answer is correct.

9. Social - security relations include:

- a) the relationship between employer and employee;
- b) relations between state bodies and insured persons;
- c) relations on the provision of social benefits;
- d) treatment relations.

10. Teacher's salary depends on:

- a) the number of students, classes;
- b) qualifications;
- c) pedagogical load;
- d) qualifications, pedagogical workload.

11. The tariff list of school teachers is signed by:

- a) the head and chief accountant of the school;
- b) the head and chief accountant of the higher body;
- c) the head of the school;
- d) no answer is correct.

## TOPIC 9. BUDGET EXPENDITURES FOR ECONOMIC ACTIVITY AND SCIENCE

### *1. Coverage and classification of local public expenditures*

The current legislation<sup>1</sup> classifies expenses from local budgets in operating costs and development costs. The operating section include: a) staff costs; b) goods and services; c) interest; d) grants; e) current transfers between government units; f) other transfers for current expenses; g) social assistance; h) repayment of loans; i) other expenses; j) loans to local institutions and public services or activities entirely financed from own revenues. The development section includes: a) capital expenditures; b) projects funded by external grants post-accession; c) transfers for capital expenditures; d) other internal transfers for capital expenditures

Operating section includes current expenditures mandatory to achieve specific competencies established by law for each administrative unit. The development section concerns expenditure on investment of local authorities. Local budget expenditures are grouped according to several criteria to ensure identification of actions financed and the influence of the use of local funds. In our scientific approach is important the functional classification of local public expenditures. The existing classification can be adjusted and updated as a result of improving the tax legislation and through the annual budget laws, in accordance with programs of increasing financial autonomy of the administrative and territorial units and the decentralization of public services. It lies at the basis of local budgets, their execution, and the preparation of budget execution account.

Expenditures provided in local budgets are grouped by functional classification as follows:

1. General public services.
2. Defense, public order and national security.
3. Social and cultural expenses.

4. Services and public development, housing, environment and water.
5. Economic actions.

These categories of expenditures from local budgets are divided into chapters and subchapters. The main expenses in the «socio-cultural expenses» are:

a) Education:

- Pre-primary and primary education;
- Secondary education.

b) Health:

- Public health services;
- Other health expenses;

c) Culture, recreation and religion:

- Cultural services;
- Recreational and sporting services;
- Other services in the areas of culture, recreation and religion;

d) Insurance and social assistance:

- Assistance to the elderly;
- Social assistance in case of illness and disabilities;
- Social assistance for family and children;
- Aid for housing;
- Nurseries;
- Prevention of social exclusion;
- Other expenses for insurance and social assistance.

Budget appropriations approved by local budgets are used by granting loans made by their principal officer, within the limits approved, according to the set destination and legal provisions governing these expenditures.

## ***2. Local public expenditures on economic activities***

The expenses for economic activities reflect state intervention in support or influence national economy, often financed from the central budget as an



expression of the role that public authorities have towards the economic macro stabilization. This practice does not exclude the possibility of financing such expenditures through the local budgets or from special funds, although the share of the expenditures for economic actions they perform in these components of the public budget are lower, as a consequence of the powers of local public authorities in economic matters. Subgroups of expenses for economic actions are mainly capital expenditures materialized in many cases in investments of local governments in areas of public interest: regional and social development programs, production transport, distribution and supply of heat in a centralized system, agriculture, forestry, fisheries and hunting, road transport, public transport of passengers, streets etc.

### ***3. Reserve Fund of the Budget***

Reserve fund of the budget is formed for the purpose of non-recurring extraordinary expenditures that could not be envisaged when preparing the draft budget. The procedure for spending resources of the reserve fund is established by the Cabinet of Ministers of Ukraine.

Decisions on allocating funds from the reserve fund of the budget are made, correspondingly, by the Cabinet of Ministers of Ukraine, Council of Ministers of the Autonomous Republic of Crimea, local state administrations, or executive bodies of the local self-government.

Reserve fund of the budget cannot exceed one percent of the expenditures of the corresponding budget general fund.

The Cabinet of Ministers of Ukraine (Council of Ministers of the Autonomous Republic of Crimea, local state administration, executive bodies of the corresponding local councils) on a monthly basis reports to the Verkhovna Rada of Ukraine (Verkhovna Rada of the Autonomous Republic of Crimea and to corresponding local council) on spending resources of the reserve fund of the corresponding budget.

Reserve fund of the budget shall be included in the State Budget of Ukraine. Decision requiring creation of the reserve fund of local budget is made by the Verkhovna Rada of the Autonomous Republic of Crimea or the relevant local council.

#### ***4. State Regional Development Fund***

The State Regional Development Fund is established within the general fund of the State budget. When preparing a Draft State budget of Ukraine and a forecast of the State budget of Ukraine for the two budget periods following the planning period, the State Regional Development Fund is envisaged at an amount of not less than 1 percent of the projected amount of general fund revenues of the Draft State budget of Ukraine for the respective budget period.

Resources of the State Regional Development Fund shall be used for implementation of investment programs and regional development projects (including collaboration projects and voluntarily associated territorial communities), with regard to implementation of regional development activities, infrastructure and innovative industrial parks and consistent with the priorities set out in the State Regional Development Strategy and regional development strategies.

By 1 May of the year, which precedes the planning year, the Council of Ministers of the Autonomous Republic of Crimea, local State administrations, and executive bodies of local councils shall submit to the central executive body, which ensures formulation of the State regional policy, their proposals with a list and description of investment programs and projects of regional development.

The central executive body, which ensures formulation of the State regional policy, based on the proposals submitted, shall evaluate and select the abovementioned programs and projects on a competitive basis within the scope of the indicative projects amount of resources of the State Regional Development Fund, while maintaining the following criteria of allocation between the Autonomous Republic of Crimea, oblasts, and cities of Kyiv and Sevastopol:

80 percent of funds - based on the size of the population living in the relevant region;

20 percent of funds - taking into account the level of socioeconomic development of the regions according to the indicator of per capita gross regional product (for the regions, where this indicator is below 75 percent of the Ukrainian average).

Based on the results evaluation and compliance of the submitted investment programs and projects of regional development to the legislative requirements, the central executive which ensures formulation of the State regional policy, shall, by 1 August of the year preceding the planning year, submit to the Cabinet of Ministers of Ukraine for approval its proposals with regard to the allocation of funds of the State Regional Development Fund with a list of relevant programs and projects.

The programs and projects implemented against the funds of the State Regional Development Fund shall be subject to 10 percent co-financing by local budgets.

The procedure of preparation, evaluation, and selection of the programs and projects of regional development, which may be implemented against the funds of the State Regional Development Fund, and the procedure of using such funds (including the conditions for allocating some part of funds of local budgets for such purposes) shall be stipulated by the Cabinet of Ministers of Ukraine.

The allocation of State Regional Development Fund resources by administrative-territorial unit and investment program and project of regional development shall be approved by the Cabinet of Ministers of Ukraine upon coordination with the Committee on Budget of the Verkhovna Rada of Ukraine within a three-months' term of enactment of the Law on the State Budget of Ukraine.

## TEST TASKS FOR TOPIC 9

1. Direct financing of the national economy is carried out in the form of:
  - a) subsidies and grants;
  - b) transfers and loans;
  - c) tax, credit and price benefits;
  - d) a) and b).
2. Indirect financing of the national economy is carried out in the form of:
  - a) subsidies and grants;
  - b) transfers and loans;
  - c) tax, credit and price benefits;
  - d) no answer is correct.
3. Enterprises in which the share of state property exceeds: are entitled to receive financial assistance at the expense of budget allocations:
  - a) 30%;
  - b) 50%;
  - c) 40%;
  - d) 60%.
4. The procedure for providing support from budget allocations is determined by:
  - a) the Cabinet of Ministers of Ukraine and the National Bank of Ukraine;
  - b) the Ministry of Finance of Ukraine and the National Bank of Ukraine;
  - c) State Treasury Service of Ukraine;
  - d) local governments.
5. To receive financial support, the company must make:
  - a) an estimate of income and expenses;
  - b) the project of using funds in the form of rehabilitation;
  - c) financing plan;
  - d) no answer is correct.
6. Preferential taxation is carried out in the form of:

- a) granting a tax deferral;
- b) restructuring and writing off tax arrears;
- c) exemption from taxation of certain sectors of the economy;
- d) all previous answers are correct.

7. Grants from the budget are provided:

- a) institutions of the socio-cultural sphere;
- b) local governments;
- c) state-owned enterprises whose financial plans provide for losses from financial and economic activities;
- d) public authorities.

8. Small businesses in Ukraine produce:

- a) 5% of total production;
- b) 7% of total production;
- c) 8% of total production;
- d) 11% of total production.

9. In Ukraine, small business employs:

- a) 9% of the employed population;
- b) 6% of the employed population;
- c) 8% of the employed population;
- d) 11% of the employed population.

10. Financial and credit support of small business in Ukraine by the state is provided by:

- a) investments;
- b) the state budget;
- c) local budgets;
- d) Ukrainian Fund for Entrepreneurship Support and Competition Development.

11. Investments in fixed capital and in the growth of inventories - these are:

- a) real investment;
- b) financial investments;

- c) direct investment;
- d) capital investments.

12. Investing in various financial instruments - these are:

- a) real investment;
- b) financial investments;
- c) direct investment;
- d) capital investments.

13. Investing in an investment object is:

- a) real investment;
- b) financial investments;
- c) direct investment;
- d) capital investments

14. Investments in the reproduction of existing production assets and their expansion - this is:

- a) own investments;
- b) net investment;
- c) strategic investments;
- d) portfolio investments.

15. Investing in the creation of new production assets - is:

- a) own investments;
- b) net investment;
- c) strategic investments;
- d) portfolio investments.

16. Investment in a specific block of shares for the purpose of strategic management of the company - it is:

- a) own investments;
- b) net investment;
- c) strategic investments;
- d) portfolio investments.

17. Investment in the share of the object of investment - is:

- a) own investments;
- b) net investment;
- c) strategic investments;
- d) portfolio investments.

## TOPIC 10. BUDGET EXPENDITURES ON DEFENSE AND MANAGEMENT

### *1. The system of bodies and the composition of public administration expenditures*

The system of public authorities in Ukraine includes: legislative, executive and judicial branches.

Expenditures on public administration include costs:

- for the functioning of the legislative power (the staff of the Verkhovna Rada of Ukraine, the staff of the Verkhovna Rada of the Autonomous Republic of Crimea, ensuring the activities of people's deputies, the staff of the Accounting Chamber of the Verkhovna Rada of Ukraine);

- for the functioning of the executive power (the staff of the Cabinet of Ministers of Ukraine, the staff of the Council of Ministers of the Autonomous Republic of Crimea, the staff of ministries and other central executive bodies, local state administrations, local governments);

- the President of Ukraine and his staff;

- for the maintenance of financial and fiscal authorities (State Tax Administration of Ukraine, State Audit Office of Ukraine, State Customs Service of Ukraine, State Treasury of Ukraine and others);

- general management and statistical services (conducting statistical surveys and censuses, keeping records of family budgets);

- other expenditures for national administration (production of national currency, orders, medals, coins, certification of the population, expenditures for the introduction of new tax and budget legislation).

Expenditures on the judiciary include expenditures on the maintenance of: the Constitutional Court of Ukraine, the Supreme Court of Ukraine, regional, district (city) courts, the Supreme Commercial Court, commercial and military courts.

Expenditure planning for the maintenance of public authorities is carried out in



the form of individual and consolidated estimates. Individual estimates are made for a specific government agency. At the ministry level, consolidated estimates are prepared, which include revenues and expenditures of other individual estimates of subordinate institutions.

The budget is formed on the basis of a limit certificate of budget allocations, which is sent by the higher body to all subordinate institutions within two weeks after approval of the budget from which the funding is provided. The determination of costs takes into account the objective need for funds of public authorities, based on the volume and nature of work performed, staffing and planned measures to reduce costs.

The estimate shall be approved by the head of the relevant higher authority no later than one month after the approval of the budget from which the funding is provided. Together with the estimate, the staff list of public authorities is approved, including their structural subdivisions, which are maintained at the expense of special or other extra-budgetary funds. The staff list indicates the number of staff units in terms of structural units, salaries for each position and the monthly salary fund per position.

## ***2. Remuneration of public administration employees***

According to the Law of Ukraine "On Civil Service", the remuneration of civil servants should provide sufficient material conditions for independent performance of official duties, contribute to the staffing of state bodies with competent and experienced staff, stimulate their conscientious and proactive work.

The source of formation of the salary fund of civil servants is the State Budget of Ukraine and other sources determined for this purpose by regulations on state executive bodies, approved by decrees of the President of Ukraine and resolutions of the Cabinet of Ministers of Ukraine.

Categories of civil service positions

1. Civil service positions in public bodies are divided into categories depending on the procedure for appointment, nature and scope of powers and the qualifications and professional competence of civil servants necessary for their performance.

2. The following categories of civil service positions are established:

1) category "A" (senior civil service) - positions:

State Secretary of the Cabinet of Ministers of Ukraine and his deputies, state secretaries of ministries;

heads of central executive bodies that are not members of the Cabinet of Ministers of Ukraine and their deputies;

chiefs of staff of the Constitutional Court of Ukraine, the Supreme Court of Ukraine, higher specialized courts and their deputies;

heads of local state administrations;

heads of civil service in other state bodies, whose jurisdiction extends to the entire territory of Ukraine;

2) category "B" - positions:

heads of structural subdivisions of the Secretariat of the Cabinet of Ministers of Ukraine and their deputies;

heads of structural subdivisions of ministries, other central executive bodies and other state bodies, their deputies, heads of territorial bodies of these state bodies and their structural subdivisions, their deputies;

deputy heads of local state administrations;

heads of staff of appellate and local courts, heads of structural subdivisions of court staff, their deputies;

deputy heads of civil service in other state bodies, whose jurisdiction extends to the entire territory of Ukraine;

3) category "B" - other civil service positions not classified in categories "A" and "B".

3. The number of civil service positions of categories "A" and "B" in a public body shall not exceed one third of its staff.

### *3. Expenditures on national defense*

Defense of Ukraine in accordance with the Law of Ukraine "On Defense of Ukraine", adopted in 1992, with the latest changes and additions from 5.10.2000 № 2020-III - is a system of political, economic, social, military, scientific, scientific and technical, information, legal, organizational and other measures of the state to prepare for armed defense and its protection in the event of armed aggression or armed conflict.

The Armed Forces of Ukraine, financed from the state budget, have the following general structure:

- General Staff of the Armed Forces of Ukraine as the main body of military management;
- types of the Armed Forces of Ukraine - Land Forces, Air Force, Air Defense Forces, Naval Forces;
- associations, formations, military units, military educational institutions, establishments and organizations that do not belong to the types of the Armed Forces of Ukraine.

The leadership of the Armed Forces of Ukraine within the limits provided by the Constitution of Ukraine is exercised by the President of Ukraine as the Supreme Commander-in-Chief of the Armed Forces of Ukraine.

Defense expenditures are monetary expenditures for the preparation of state defense, which include the maintenance of the Armed Forces, the development of the defense industry, military research, as well as expenditures for the elimination of their consequences.

Given the importance of defense for the functioning of a sovereign and inviolable state, it is quite justified to finance its needs exclusively from the state budget of Ukraine, which is determined by both the Budget Code of Ukraine and special legislation. The current legislation also determines the minimum amount of funds to be used to finance the needs of national defense - at least 3% of the planned GDP.

The financing of national defense expenditures in Ukraine is carried out in accordance with the principle of minimum sufficiency, ie the state must perform functions that the market cannot provide.

According to the budget classification codes, the financing of defense expenditures (0200) is carried out in terms of costs for:

- military defense (0210);
- civil defense (0220);
- military assistance to foreign countries (0230);
- military education (0240);
- research and development in the field of defense (0250);
- other activities in the field of defense (0260).

According to the functional classification of expenditures from the state budget allocations are allocated for:

- maintenance of the Armed Forces of Ukraine;
- purchase of weapons and military equipment;
- capital construction and purchase of equipment;
- other expenditures in the field of defense.

#### ***4. The structure of defense spending***

Direct defense expenditures cover the costs of defense ministries and agencies and make up the bulk of defense expenditures. These include: costs for the maintenance and training of personnel of the Armed Forces, acquisition, maintenance and operation of weapons, military equipment and property, expenditures on civil defense, military assistance to foreign states and some others. Direct defense expenditures are divided into current and capital.

Current expenditures include expenditures mainly related to maintaining the combat power of the Armed Forces at the achieved level (maintenance of military personnel and salaries of self-employed personnel, medical expenses, expenditures related to the operation and repair of military equipment).

Capital expenditures include expenditures that reflect the process of material and technical re-equipment of the Armed Forces and the development of defense infrastructure (purchase of armaments and military equipment, military construction).

These expenditures are mainly carried out according to KEKV 2260 "Expenditures and measures of special purpose", which include those expenditures on equipment, machinery, measures that can not be used for civilian purposes.

Ancillary defense expenditures are expenditures related to the maintenance of the Armed Forces, the arms race, the elimination of the consequences of wars (interest and repayment of public debt, pensions and assistance to war veterans, the disabled, the families of the dead, the cost of rebuilding war damage, payments reparations, etc.).

Hidden defense expenditures by their nature and significance belong to defense expenditures, but are estimated by civilian ministries and departments.

Defense spending is objectively determined by the need to protect the interests of the state in the international community. The amount of expenditures is determined primarily by the military doctrine, which is approved by the Parliament, based on the ratio of various military groups in the world, the directions of Ukraine's foreign policy.

## TEST TASKS FOR TOPIC 10

1. Expenditures for the functioning of the legislative, executive, judicial branches shall be financed from:
  - a) the regional budget;
  - b) consolidated budget;
  - c) the state budget;
  - d) the republican budget of the ARC.
2. Salaries of civil servants depend on:
  - a) education;
  - b) the complexity and level of responsibility of the duties performed;
  - c) work experience;
  - d) the level of the state governing body.
3. Surcharge for the rank is set only in:
  - a) educational institutions;
  - b) health care facilities;
  - c) higher educational institutions;
  - d) public authorities and administration.
4. The rank of a civil servant is assigned to:
  - a) the head of the state body within which he works;
  - b) the head of the higher body;
  - c) MFPs;
  - d) no answer is correct.
5. The bonus for years of service in public authorities and management is established to:
  - a) salary;
  - b) salary, taking into account the rank;
  - c) the average monthly salary;
  - d) rank.
6. The amount of the seniority bonus for a civil servant depends on:

- a) length of service in the civil service;
- b) total length of service;
- c) continuous work experience;
- d) no answer is correct.

7. A monthly bonus shall be paid to a civil servant in the amount of:

- a) 33% of the average monthly salary;
- b) 35% of the salary;
- c) 10% of the official salary;
- d) 25% of the average monthly salary.

8. The duration of a civil servant's leave shall not exceed:

- a) 30 calendar days;
- b) 48 calendar days;
- c) 45 calendar days;
- d) 45 working days.

9. Persons with at least the length of civil service experience are entitled to receive a civil servant's pension:

- a) 10 years;
- b) 5 years;
- c) 15 years;
- d) 11 years.

10. The maximum pension of a civil servant shall not exceed:

- a) 80% of the salary;
- b) 85% of the average monthly salary;
- c) 90% of the salary;
- d) 90% of average monthly earnings.

11. Upon retirement, a civil servant shall be provided with financial assistance in the amount of:

- a) 10 salaries;
- b) 5 salaries;

- c) 15 salaries;
- d) no answer is correct.

12. Defense expenditures are financed by:

- a) the budget of the ARC;
- b) the state budget;
- c) the regional budget;
- d) the consolidated budget.



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