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The Problems of Local Budget Funding in the Central and Eastern Europe

In all countries of Central and East Europe reforms of self-government structures and decentralization have been implemented to increase social indicators and the quality of public services. The key purpose of the article is to find correlation between the development of economy and fiscal decentralization indicators. The following tasks can be set:

- to analyze fiscal decentralization indicators, based on the international comparable data IMF, Eurostat, Ministry of finance of Ukraine in order to demonstrate the level of the financial independency of local self-governments in the observed countries.

- to observe the revenue structure of the local budgets (tax, non-tax revenues and transfers);

- to compare indicators of fiscal decentralization between CEE and Western European countries;

- to identify Ukraine’s rate of the fiscal decentralization among observed CEE countries on the basis of the cluster analyses.

The analysis of basic fiscal decentralization indicators doesn’t show any significant improvement in the degree of fiscal decentralization in most of the countries during 2000-2013. The small share of total revenues (10% in GDP) and expenditures (12% in GDP) of local self-governments in GDP highlights financial importance of fiscal decentralization processes in the observed CEE countries. Moreover, in most of them lower levels of local self-government are heavily dependent on central government budget transfers, while their own sources of revenues (primarily own tax and non-tax revenues) are insufficient to finance all functions of the local self-government.

As international experience shows, the role of local budgets in the Western European countries (especially, Netherlands, Belgium and Sweden) is considerably more important than in Ukraine and other CEE countries. The cluster analysis finds evidence of Ukraine’s low level of the fiscal decentralization, indicates the trend of development of local budget funding.

Thus, fiscal decentralization has been, and remains high on the policy agenda of many countries. The reforms are focused on finding the way to increase the share of independent sources of revenues of local self-government and their influence on the local social and economic development in Ukraine.