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ISSUES OF INTERBUDGET RELATIONS IN CONTEMPORARY KAZAKHSTAN

The role of interbudget relations within the budget system of a country and the problems of budget asymmetry are discussed in this article. A fairly high share of transfers – budget withdrawals and subventions – is shown. Mechanisms and instruments of interbudgetary alignment, directed at strengthening the financial base of local budgets, are revealed.

Keywords: budget; budget alignment; state budget; local budget; social expenditures; equalization transfers; budget withdrawal.

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ПРОБЛЕМИ МІЖБЮДЖЕТНИХ СТОСУНКІВ В СУЧАСНОМУ КАЗАХСТАНІ

У статті досліджено роль міжбюджетних стосунків у бюджетному устрої країни та проблеми бюджетної асиметрії. Показано досить високу вагу трансфертів – бюджетних вилучень та субвенцій. Розкрито механізми та знаряддя міжбюджетного вирівнювання, зосереджених на зміцненні фінансової бази місцевих бюджетів.

Ключові слова: бюджет, вирівнювання бюджету, державний бюджет, місцевий бюджет, соціальні витрати, вирівнювання трансфертів, бюджетне вилучення.

Рис. 3. Табл. 3. Літ. 14.

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ПРОБЛЕМЫ МЕЖБЮДЖЕТНЫХ ОТНОШЕНИЙ В СОВРЕМЕННОМ КАЗАХСТАНЕ

В статье рассмотрена роль межбюджетных отношений в бюджетном устройстве страны и проблемы бюджетной асимметрии. Показан достаточно высокий удельный вес трансфертов – бюджетных изъятий и субвенций. Раскрыты механизмы и инструменты межбюджетного выравнивания, направленные на укрепление финансовой базы местных бюджетов.

Ключевые слова: бюджет, выравнивание бюджета, государственный бюджет, местный бюджет, социальные расходы, выравнивание трансфертов, бюджетное изъятие.

Introduction. The demise of the Soviet Union has caused a significant shift in Kazakhstani budgetary system from the highly centralized "colonial" management to the independent self-governing one. Currently, Kazakhstan faces the problem of concentration of budget decision-making power at the governmental center, but general economic and political trends of the increased regional budgetary independence is evident. This paper traces the characteristics of the government's fiscal and economic behavior by constantly comparing indicators of the state and local budget balancing. The emergence of the dilemma is pointed out: fiscal experts would like to maintain a high level of centralization and at the same time develop economic independence of the regions. The statements contradict each other. Two in one, or a wild goose chase?

We assume that a well-balanced budget and fiscal policy determine the stability of a country by providing unity and decreasing economic disparities between the regions, since the attainable objective for sustainable growth of the national economy

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is determined by social stability and the equalization of regions. Kazakhstan consists of a large number of regions, which are very diverse in terms of climate, resources, and economic development. For this reason, the current policy is intended to raise the standards of living in less developed regions up to the level of the more developed ones. As a part of the implementation of this policy, Kazakhstan is experiencing the increase in state budget expenses and the decrease of local budget revenues.

Latest research and publications analysis. The issues related to the fiscal system are the main areas of focus for economists.

The problems of improving the budget performance as a part of the financial state policy are studied by J.J. Siegfried (2002), A.M. Baltina and V.A. Vólokhina (2004), E.A. Kachanova (2012), T.N. Novozhilova and I.A. Morozov (2012), S.J. Intykbaeva (2003), P.B. Isakhova (2003) and others.

However, fundamental changes which have arisen in the national economy, demand new approaches to interbudgetary relations and effective usage of budget funds. In most of the published studies only certain issues of the fiscal system are discussed. Furthermore, a systematic approach to the theoretical definitions and operational elements is not observed. Features of the formation and the use of financial and budgetary resources of the regions are studied to a very insufficient extent.

The research objective is to identify further ways to improve the interbudgetary relations by developing a forecasting model for budget flows from the regional perspective.

The methods of research are systematic that provide comparative analyses of scientific literature and statistical information.

Unresolved issues. The unequal effects of the recent crisis in Kazakhstan have intensified already high levels of differentiation of socioeconomic development between the regions (The methodology for general transfers calculation. The Decree of the Government of the Republic of Kazakhstan, 02.02.2010, #54).

Currently, the regions differ in around ten times by their indices of production development and living standards, and according to some indices they differ in hundreds of times.

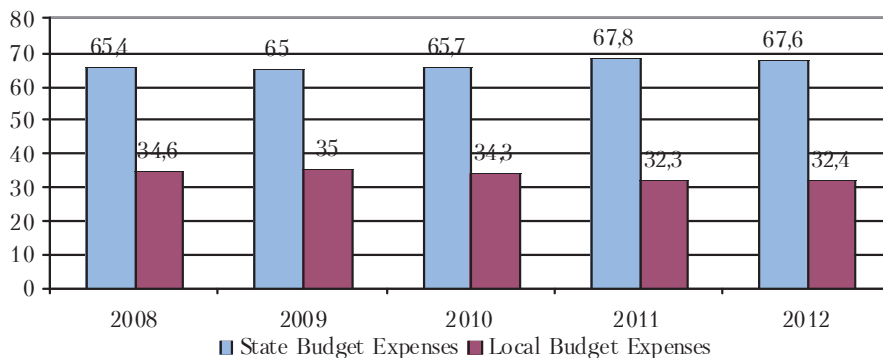
The whole situation is getting more unfavorable, because economic differences between the developed regions and the regions with low economic potential influence the political sphere by posing a threat to the unity of the country (Issakhova, 2003).

Key research findings. Funding costs increased due to the state budget processes between 2008 and 2012 (Figure 1), whereas growth in state budget revenues slowed down over the same period (Figure 2).

Financial stability of a region depends on the revenue base of the local budget. The ratio of incomes and expenditures of local budgets, or their interbalance is dependent on the structure of local budget revenues, generated from the proceedings defined by budget legislation. They are designed to achieve financial objectives and functions of state bodies of a corresponding level and subordinate government agencies, and the implementation of the state policy in a respective administrative territorial unit.

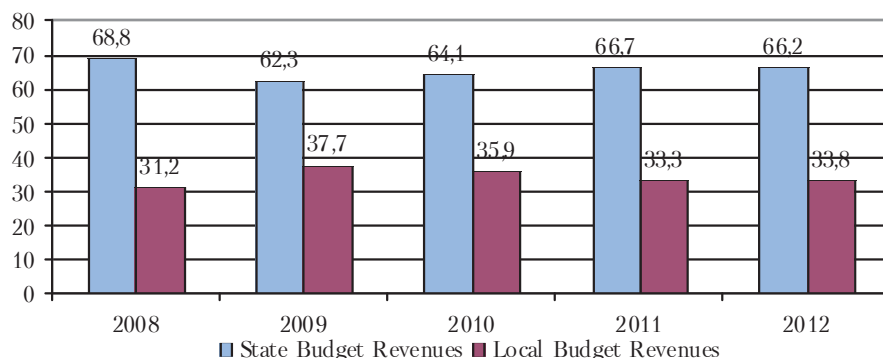
Budget alignment is the basis of any macroeconomic government policy in a region, carried out for the purposes of preventing or ameliorating critical, social, economic, environmental etc. situations as the causes for high territorial differentiation. Territorial differences may lead to a deviation from a norm, namely negative fluctua-

tions of economic (the crisis of production), environmental (ecologic disaster) and social (reduced quality of life, reduction in birth and life expectancy rates, the deterioration of demographic structure, an increase in crime rates) indicators of a regional profile. In these cases, the need for financial support for certain areas is of specific importance (Elger, 2011).



Source: Constructed by the author by the data from the Statistical Bulletin of the Ministry of Finance of the Republic of Kazakhstan #1 (169), January 2013.

Figure 1. The correlation between the state and the local budgets expenses in Kazakhstan for the years 2008–2012, mln tenge



Source: Constructed by the author by the data from the Statistical Bulletin of the Ministry of Finance of the Republic of Kazakhstan #1 (169), January 2013.

Figure 2. The correlation of revenues between the state and the local budgets in Kazakhstan for 2008–2012, mln tenge

The analysis of the budgetary financing of social expenditures within the "Education" functional group per capita shows that in 2008 the West Kazakhstan (X maximum value) region allocated budgetary funds up to 34027 mln tenge per capita; in 2009–2011 the per capita cost of services rendered in Kyzylorda (X maximum value) region amounted to 49363 mln tenge, 55339 mln tenge and 62143 mln tenge respectively.

The coefficient of differentiation of the budget funding for education in 2008 was 1.71, in 2009 – 2.14, in 2010 – 2.25, and 2011 – 1.71, i.e. the difference in budget funding for education per capita in the region increased from 1.71 to 2.25 times and then slowed down to 1.71.

Table 1. Differentiation of social expenditures funding in Kazakhstan by the regions, 2008–2010

Indices	Average value, mln tenge	Maximum value, mln tenge, X	Minimum value, mln tenge, X	Gap (R = max – min), tenge	Differentiation ratio (R = max/min), times	Oscillations ratio VR = (R) / (X)
2008	29413	34027	19820	14207	1,71	0,48
2009	36519	49363	22989	26374	2,14	0,72
2010	28799	55339	24604	30735	2,25	1,07
2011	48 619	62 143	36 323	25820	1,71	0,53
2008	19335	29628	11468	18160	2,58	0,94
2009	23173	40680	15249	25431	2,67	1,10
2010	28512	53631	17655	35976	3,04	1,26
2011	22711	51799	15494	36305	3,34	1,60
2008	3188	4370	1776	2594	2,46	0,81
2009	4381	5959	2347	3612	2,54	0,82
2010	5894	10616	3622	6994	2,93	1,19
2011	6142	8556	3541	5015	2,42	0,82

Source: Constructed by the author by the data from the Statistical Bulletin of the Ministry of Finance of the Republic of Kazakhstan #1 (169), January 2013.

The coefficient of differentiation of the budget financing for healthcare in 2008 accounted for 2.58, in 2009 – 2.67, in 2010 – 3.04, and in 2011 – 3.34.

The coefficient of differentiation of the budget funding for social assistance and social supply in 2008 made up 2.46, in 2009 – 2.54, in 2010 – 2.93 and 2011 – 2.42.

The world experience demonstrates the effective functioning of budget balancing as the basic element of fiscal state policy at the regional level. Many countries mainly use 2 or 3 models of vertical relationships in the implementation of revenue powers: 1) the model of distribution of revenue sources; 2) the model for separation of the derived tax revenues; 3) the model for distribution of the fixed income budget of one level between budgets of other levels (Baltina and Volokhina, 2004).

The dominance of a particular model is primarily affected by the specific features of a fiscal system and the attributes of its imbalances, as well as by various historical and political factors prevailing in a country which influence the parameters such as the degree of centralization of the budget, the mobility of the tax base and the uniformity of its distribution etc.

This analysis allows us to outline 4 types of countries, subject to the principle that underlies the construction of the mechanism of budget alignment. The first type of a country uses a combined levelling system of budgetary capacity and budget requirements. This group includes the countries with a system of budget alignment backed by a powerful methodology and developed institutional provision that allow them objectively evaluate budgetary potential as well as the budgetary needs of regional and local budgets.

The second group is comprised of those countries in which the system of budget alignment is based on the principle of levelling only the income capacity. Such a system is simple to implement and does not require costs to create an extensive statistical base for indicators' calculation. However, the application of this model is effective only in the cases of a low level of interregional differences in terms of budget requirements per capita.

The third type includes budget levelling systems, which focus on the alignment of budgetary requirements for certain types of expenses. As a rule, the use of such a principle does not take into account tax opportunities of regional and local budgets.

The set of indicators reflects budgetary requirements of regions for each country. It is defined by the purposes pursued by the system of budget alignment and various historical and political factors. Finally, the last of our underlined fundamental mechanisms of budget balancing is based on the redistribution of funds per capita. An element built on this principle makes a barely discernible contribution to the general balancing effect, since it is only capable to soften some regional differences in the tax capacity (The forecast of socioeconomic development of the Republic of Kazakhstan for 2013–2017, Protocol #8, 04.04.2012).

Subventions from the state budget for the period between 2007 and 2012 rose from 192791 to 880645 mln tenge, i.e. an increase of 4.6 times was registered. In the budgets of some subvention areas, transfers constitute up to 70% (South Kazakhstan, Zhambyl, North Kazakhstan region), since taxes and other incomes of these regions are not sufficient for achieving an acceptable level to cover social and economic needs.

Table 2. Subventions from the Republic's budget in 2007–2012, mln tenge

Indicators	2007		2008		2009		2010		2011		2012	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Total subventions from the state budget	192791	100	539398	100	642061	100	787285	100	789939	100	880645	100
Akmola region	19617	10.2	31498	5.8	35399	5.5	42772	5.4	49552	6.3	53580	6.1
Actobe region	-	-	15723	2.9	17544	2.7	23692	3.0	21837	2.8	31722	3.6
Almaty region	22186	11.5	48922	9.1	60035	9.4	73800	9.4	94077	11.9	103883	11.8
East-Kazakhstan region	22189	11.5	46936	8.5	54083	8.4	64659	8.2	81700	10.3	89595	10.2
Zhambyl region	21326	11.2	44197	8.2	52049	8.1	62678	7.9	75778	9.6	85094	9.7
West Kazakhstan region	11173	5.8	20213	3.8	21712	3.4	26545	3.4	13984	1.8	17113	1.9
Karaganda region	7678	3.9	35715	6.6	40621	6.3	50338	6.4	55938	7.1	61399	7.0
Kyzylorda region	14812	7.7	36161	6.7	42159	6.6	51507	6.5	64396	8.2	52273	6.0
Kostanay region	13415	6.9	33661	6.2	37722	5.9	45264	5.7	48552	6.1	71594	8.1
Pavlodar region	3811	1.9	14678	2.7	16371	2.5	21737	2.8	25809	3.3	28929	3.3
North Kazakhstan region	16346	8.6	31032	5.5	34097	5.2	40432	5.1	47000	5.9	50717	5.8
South Kazakhstan region	40039	20.8	90332	17.0	115134	18.0	141931	18.1	193273	24.5	216436	24.6
Astana	-	-	90332	17.0	115134	18.0	141931	18.1	18043	2.3	18310	2.1

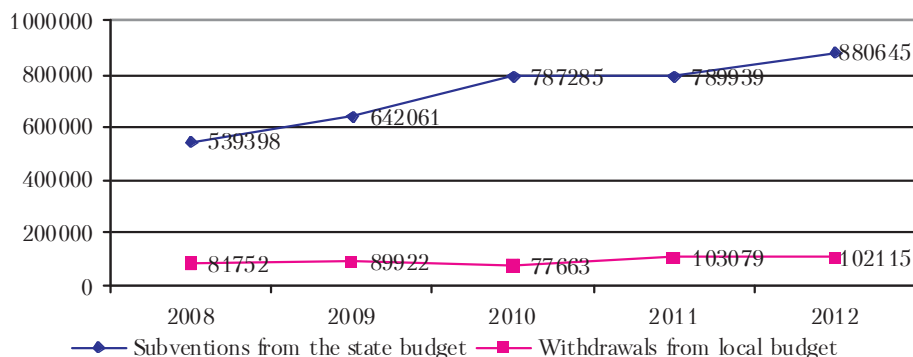
Source: Constructed by the author according to the data from: The Law of Republic of Kazakhstan #219-IV "On Republic's budget for 2010–2012", the Law of Republic of Kazakhstan "On Republic's budget for 2012–2014" (with amendments and additions, as of 16.03.2012).

Table 3. Budgetary withdrawals from the local budgets in 2007–2012, mln tenge

Indicators	2007		2008		2009		2010		2011		2012	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Budgetary withdrawals from local revenues	151499	100	81752	100	89922	100	77663	100	103079	100	102115	100
Budgetary withdrawals from the regional budget of the Aktyubinsk area	4079	0.7	-	-	-	-	-	-	-	-	-	-
Budgetary withdrawals from the regional budget of Atyrau area	43062	28.4	15468	18.9	20193	22.5	18739	24.1	41708	40.5	39468	38.7
Budgetary withdrawals from the regional budget of Mangistau area	24437	16.1	4249	5.2	5342	5.9	2431	3.1	12731	12.4	16076	15.7
Budgetary withdrawals from the city budget of Almaty	72310	47.7	52401	64.1	55811	62.1	55000	70.8	48640	47.2	46571	45.6
Budgetary withdrawals from the city budget of Astana	10611	7.1	9634	11.8	8576	9.5	1493	2.0	-	-	-	-

Source: Constructed by the author by the data from the Law of Republic of Kazakhstan "On Republic's budget for 2012–2014" (with amendments and additions, as of 16.03.2012) and the Statistical Bulletin of the Ministry of Finance of the Republic of Kazakhstan #1 (169), January 2013.

A share of the expenditure on transfers, budgetary withdrawals from the local budgets to a higher budget (the state budget in this case), appears to be large enough. Due to a higher level of economic development or environmental conditions, budget withdrawals are conducted in the regions which have a tax base above the national average, and correspondingly, higher tax revenues (Figure 3). Oil regions and Almaty, the financial center of the country, fall into this category.



Source: Constructed by the author by the data from the Statistical Bulletin of the Ministry of Finance of the Republic of Kazakhstan #1 (169), January 2013.

Figure 3. **Budget subventions from the state budget and the withdrawals from the local budgets, mln tenge**

Most countries use formulas for the calculations of their budget alignment system, attempting to maximize an objective approach to the calculation of equalization transfers. Other countries apply a wide variety of different approaches to the assessment of tax capacity and needs of their regional budgets. However, almost all of them are based on the understanding of the aligned creation of a financial mechanism aimed to provide a certain standard (or minimum guaranteed) level of public services irrespective of primary residence of population at a relatively standard level of taxation of legal entities and individuals (Hampton and Rayner, 1977).

Conclusions. In Kazakhstan, the methodology of transfers was approved by the Government of the Republic of Kazakhstan on July 16, 2011 N599. According to the methodology, the volume of transfers of a general character is defined by the difference between the projected revenue and the expenses of the local budget. In Kazakhstan, the budget alignment is focused on balancing the budget requirements for certain types of expenses. As a rule, the use of such a principle does not take into account tax opportunities of local budgets.

The following variables are applied to calculate the amount of projected operating costs: the rates of urbanization, the coefficient of the dispersion of populated areas, the scale factor, the coefficient of age structure of population, the factor for additional payment for working in rural areas, the coefficient of population density, the coefficient of road maintenance, factor of poverty (based on the proportion of people with the income below the minimum), the factor of the heating season duration which causes a difference in the costs of services provision (The Budget Code of Republic of Kazakhstan with amendments and additions, 11.08.2011).

Assessment of the budget alignment system in Kazakhstan demonstrates an insignificant balancing effect of budget transfers from the regions with higher levels of budget contribution to the advantage of the regions with the lowest level of budget contribution. However, neither from the scientific nor from the practical perspective it is correct to ascribe the failure to resolve these problems only to the imperfect organization of interbudgetary relations and the distribution mechanism. Notwithstanding their theoretical suitability, in the case of a weak tax collection system, the lack of preconditions for an expansion of the tax base, irrational use of available budget, practical implementation of economic management strategies cannot be automatically considered as effective. In other words, to create an effective model of interbudgetary relations it is important not only to respond to the question "how to allocate", but also "what to allocate". That is why raising the quality of the scientifically based approach to increase the budget revenues by improving the methods of distribution of tax revenues within the region is viewed as one of the key aspects in reforming the interbudgetary relations.

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