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The theoretical and methodical aspects of creation of budget space of regions
Section: **Macroeconomic and regional problems of industrial development**
Ekon. promisl. 2016, 75(3): 65-79
<https://doi.org/10.15407/econindustry2016.03.065>
Language: Ukrainian

Abstract: The article examines the theoretical background of creation of budget space of regions in the context of fiscal decentralization. We have briefly analyzed the functions of government, according to R. Musgrave, notably macroeconomic stabilization - the maintenance of both price stability and high employment, income redistribution assigned primarily to the central government, and allocation of resources which should be efficient. After examining the theoretical and methodical aspects of applying the main instruments of budget space we determined the basic tools of financial relations between authorities of different levels in the framework of budget space. In general, these instruments could be divided into two broad categories: general-purpose and specific-purpose transfers. In turn, specific-purpose transfers intended to give incentives for authorities of different levels to realize some specific programs and activities could be open-ended and close-ended, depending on limits of funds, transferred to local governments. Also specific-purpose transfers could have matching or non matching nature: matching grants require that the recipient should match the funds to some degree, while non matching transfers ensure a given level of funding without local matching, although these transfers provide spending of funds only for determined purposes. We analyzed the types of transfers depending on their purposes, their influence on relative prices on public goods and services and also on spending of central government.

Keywords: budget space; fiscal decentralization; regions; budget policy.
Full text (PDF)
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