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### **Policy formation of regional budgets as a key tool of economic inequality leveling of Kazakhstan's regions**

**Abstract.** The paper considers the main causes of economic inequality of regions of Kazakhstan and regional disparities in the formation of local budgets.

The aim of the work is to study the policy of forming regional budgets and to identify its role in leveling regional disparities in the regions of Kazakhstan.

The work is significant, as regional inequality in the regions of Kazakhstan forces us to take measures to improve the system of state and local government. In turn, the policy of forming regional budgets plays a key role in this area.

As a result of the analysis were identified the signs reducing the share of own revenues of local budgets, and, accordingly, were identified their dependence on the state budget and many other factors. The aim of the study is finding out ways of improving a policy of regional budgets. The study noted the importance of improving budget equalization of local budgets incomes, and defined the need to develop the principles of economic and social equality on the formation of the local budget in the Republic of Kazakhstan.

**Key words:** regional budget, economic inequality of regions, gross regional product.

#### **Introduction**

Regional contrasts and inequalities in the level and quality of life, which the poor especially dislike, create real contradictions between social groups and areas that threaten political stability. Therefore, many scientists are studying the principles of social and territorial justice, methods of measuring regional inequality and the role of the state in smoothing regional disparities, as well as patterns of development of different types of areas.

#### **Literature review.**

Numerous studies were written about regional inequality in the world and in Kazakhstan by different scientists (Christian Lessmann, André Seidel, 2017; Daniel A. Tirado, 2016; Laura Lyytikäinen, 2016; Mukhtarova, 2004).

Many scientists wrote about political aspects of budgeting (James D. Savage, 2015) and its influence to regional inequality of regions (Allen R. Sondej, 2016)

Many studies including Kazakhstani scientists papers are devoted on problems of Kazakhstan's regions ranking and its innovation development (Mukhtarova, Kupeshova, 2015; Mukhtarova, Myltykbaeva, Asanova, 2016; Mukhtarova,

Myltykbaeva, 2016; Mukhtarova, Myltykbaeva, Nurmagambetova, 2016).

It is also important to emphasize the need for analysis of development issues of the state local government and self-government in the Republic of Kazakhstan, which has a significant impact on the socio-economic development of regions of the country. In this area devoted to numerous works of foreign (K. Pylak, 2016; D. Vorontsov, A. Shikhalev, 2015) and Kazakh researchers (Mukhtarova, Smagulova, 2014).

#### **Methods.**

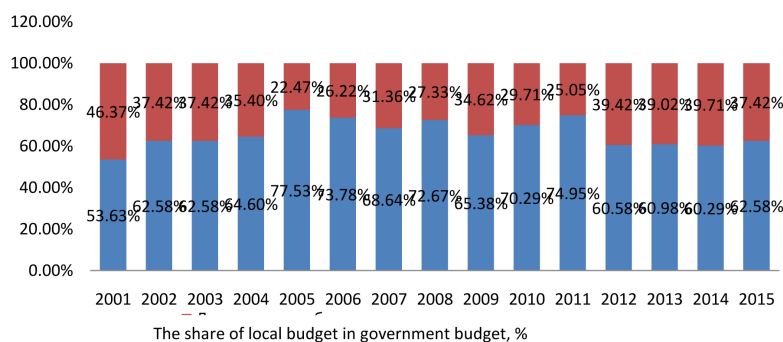
The situation with development of local management needs to be linked with existing legislation, particularly the Law "About local government and self-government in the Republic of Kazakhstan". [11] The purpose of a law is a further implementation of the basic approaches which considered at the Concept of development of local government, and the recommendations of the 97 th and 98 th steps of Nation Plan [10]. In connection with this draft law is aimed at solving the main problem – an extension of the revenue base of the control of cash accounts by transferring to local governments an additional two taxes – taxes on transport and land

tax for legal entities. This preserves the existing mechanism of enrollment transmitted to the control account of cash of local government taxes in district budget for further transfers to local governments in the form of transfers.

#### Main body.

As noted above, management of local budgets revenue is still largely centralized. The

main part of budget revenues focuses on the national level. Regional authorities are provided by limited authority in the area of the formation of their own income, and they do not provide sufficient capacity for growth in tax revenues. The following figure shows the change of local budgets share in the revenues of the state budget (Figure 1):



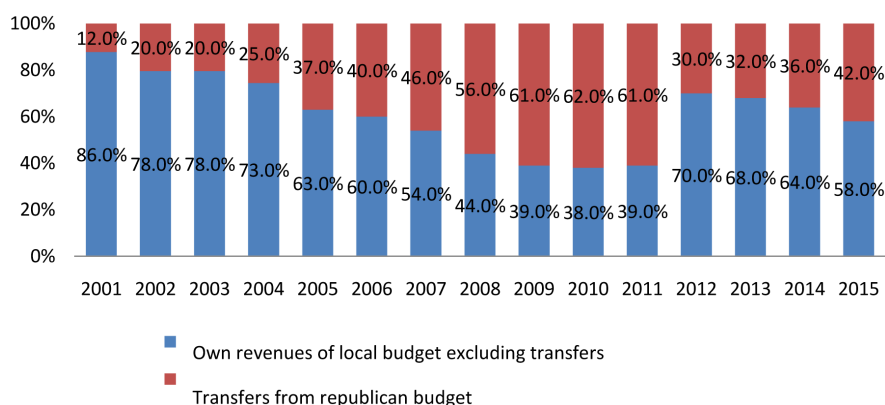
**Figure 1** – Proportion of national and local budgets at the state budget revenues excluding transfers, in % \*

\*Note: compiled by the author based on data [18]

Figure 1 shows that there is a tendency to reduce the role of local budgets in the formation of state budget revenues and, accordingly, increase the proportion of the national budget. The share of local budgets has decreased by 8.95 percentage points since 2001 and amounted to 37.42% in 2015.

There is also relative decline in the share of own revenues of local budgets. Under the own revenues of local budgets are understood incomes of local budgets, excluding official transfers from the higher budget, formed on the basis of standard of tax payments distribution.

The share of own revenues decreased by more than 2 times – 47 percentage points from 2001 to 2011. The weakness of own sources of local budgets income's replenishment determines the high degree of dependence of regions on republican budget. The share of transfers from the state budget amounted to 61% of total revenues of local budgets in 2011. However, since 2012 the situation has changed due to changes in the Budget Code of Kazakhstan Republic. The share of transfers from the state budget amounted to 42% of local budgets total revenues in 2015. This situation was demonstrated by the next diagram (Figure 2.):



**Figure 2** – Proportion of own revenues and transfers from the republican budget at the local budget revenues, in% \*

\*Note: compiled by the author based on data [18]

With regard to the structure of transfers from the republican budget, the share of subsidies accounted

for 35.81% of local budgets total revenues in 2015 (Table 1):

**Table 1** – Proportion of own revenues and transfers from the republican budget at the local budget revenues, mln. tenge\*

Year	Revenues of local budget	Own revenues of local budget excluding transfers	Transfers from the republican budget	The share of own revenues in local budget revenues%	The share of transfers from the republican budget at the local budget revenues%
1	2	3	4	5	6
2001	394 099,00	340 352,00	48 126,00	86,4%	12,2%
2002	386 013,00	302 331,00	76 781,00	78,3%	19,9%
2003	385 604,00	302 331,00	76 372	78,4%	19,8%
2004	486 298,00	355 676,00	122 926,00	73,1%	25,3%
2005	749 660,60	471 545,70	278 114,90	62,9%	37,1%
2006	1 026 747,10	613 245,90	413 501,20	59,7%	40,3%
2007	1 524 458,30	824 766,40	699 691,90	54,1%	45,9%
2008	1 830 138,40	809 698,10	1 020 440,30	44,2%	55,8%
2009	2 119 178,30	831 414,30	1 287 764,00	39,2%	60,8%
2010	2 407 437,00	920 883,70	1 486 553,30	38,3%	61,7%
2011	2 677 740,20	1 044 886,00	1 632 854,20	39,00%	61,00%
2012	4 327 318,60	3 010 624,00	1 316 694,60	69,57%	30,43%
2013	4 828 798,90	3 284 401,00	1 544 397,90	68,02%	31,98%
2014	5 846 592,30	3 752 971,20	2 093 621,10	64,19%	35,81%
2015	6 299 959,70	3 667 358,60	2 632 601,10	58,21%	41,79%

*\*Note: compiled by the author based on data [18]*

In comparison with 2001, the share of subsidies increased 1.6 times (from 9% to 14.4%). At the same time local budgets receive the majority of

budgetary funds from the national budget in the form of targeted transfers – 27.4% of revenue (Table 2):

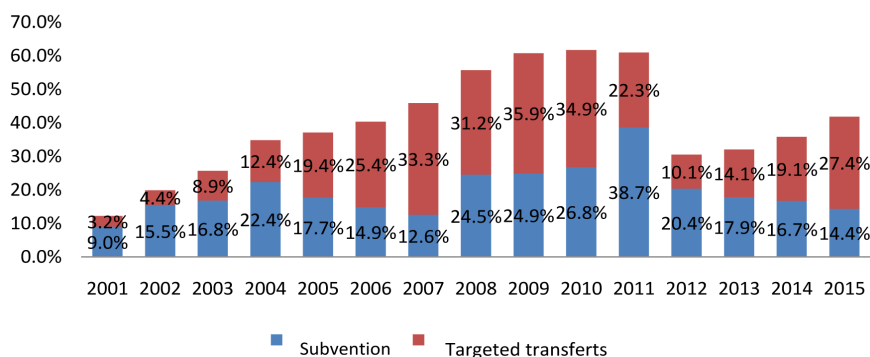
**Table 2** – The share of subventions and targeted transfers in local budget revenues,%

Years	Transfers	Including	
		Subventions	Targeted transfers
1	2	3	4
2001	12,2%	9,0%	3,2%
2002	19,9%	15,5%	4,4%
2003	25,7%	16,8%	8,9%
2004	34,8%	22,4%	12,4%
2005	37,1%	17,7%	19,4%
2006	40,3%	14,9%	25,4%
2007	45,9%	12,6%	33,3%
2008	55,8%	24,5%	31,2%
2009	60,8%	24,9%	35,9%
2010	61,7%	26,8%	34,9%
2011	61,0%	38,7%	22,3%
2012	30,4%	20,4%	10,1%
2013	32,0%	17,9%	14,1%
2014	35,8%	16,7%	19,1%
2015	41,8%	14,4%	27,4%

*\*Note: compiled by the author based on data [18]*

Thus, today the main problem of local budgets – lack of own funds. The reasons for reducing the share of own revenues of local budgets are associated

with changes in the budget and tax legislation, tax sharing regulations, fees and taxes between the levels of the budget system (see Figure 3):



**Figure 3** – The share of subventions and targeted transfers in local budget revenues, in% \*

*\*Note: compiled by the author based on data [18]*

The current method of calculation of general transfers does not allow regions to increase their own resources. Application of the principle under which revenues exceed the forecast amount of local budget expenses are taken to the national budget, it

has negative consequences. There is containment of initiatives of local authorities and reduced interest in building its own tax base and improving tax collection. This position is confirmed by the dynamics of budget withdrawals presented in Table 3 and Figure 4:

**Table 3** – Budget withdrawals from local

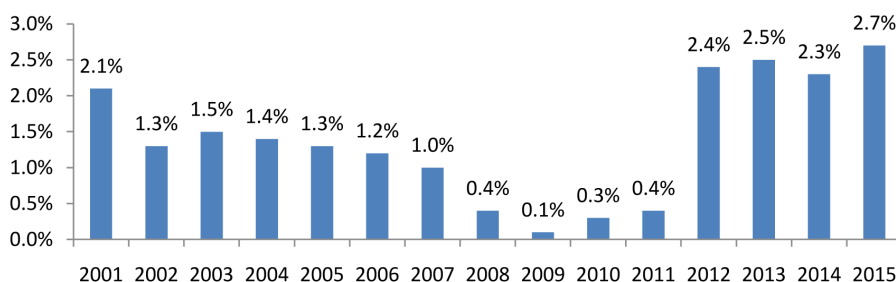
Years	Revenues of local budget	Budget withdrawals	Budget withdrawals in %
1	2	3	4
2001	394 099,00	8415,50	2,1%
2002	386 013,00	4906,45	1,3%
2003	385 604,00	5763,00	1,5%
2004	486 298,00	6690,87	1,4%
2005	749 660,60	9500,85	1,3%
2006	1 026 747,10	11947,66	1,2%
2007	1 524 458,30	15149,89	1,0%
2008	1 830 138,40	8175,21	0,4%
2009	2 119 178,30	2019,27	0,1%
2010	2 407 437,00	7766,31	0,3%
2011	2 677 740,20	10307,88	0,4%
2012	4 327 318,60	102114,76	2,4%
2013	4 828 798,90	121056,19	2,5%
2014	5 846 592,30	132020,65	2,3%
2015	6 299 959,70	168538,09	2,7%

*\*Note: compiled by the author based on data [18]*

With the adoption of the Tax Code in 2001, identified new standards for the distribution of tax by levels of budget system, the proportion of the budget withdrawals decreased by more than 5 times: from 2.1% of GDP in 2001 to 0.4% of GDP in 2011. If 2001 year budget seizure took place in 8 regions, then in 2010 the republican budget received only withdrawal of the 4 local budgets: Atyrau and Mangistau oblasts, Almaty and Astana (since 2011 of Astana budget exemptions are no longer carried out ). Budgetary withdrawals took place in 8 regions in 2001, then the republican budget received withdrawal only from 4 local budgets in

2010: Atyrau and Mangistau, Almaty and Astana (budget withdrawals from Astana already hasn't implemented since 2011).

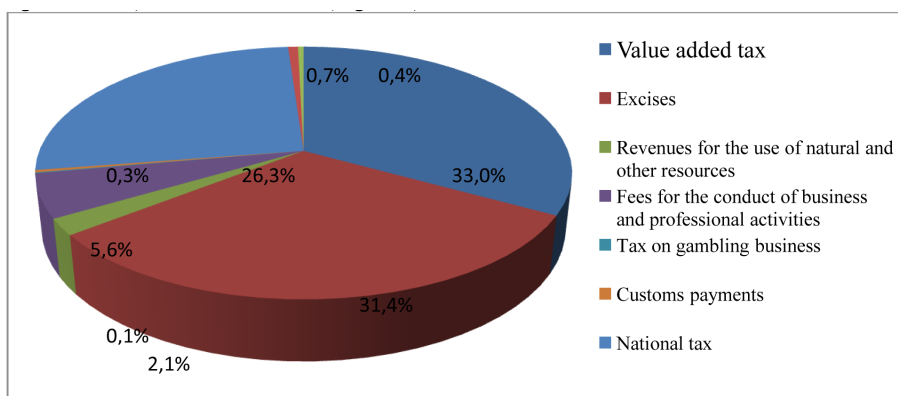
The main reason of successful development of the Atyrau and Mangistau regions is the availability of development of oil sector. Almaty and Astana have a special status of capital cities. They have quite capacious markets. These cities are the economic centers of the country with high investment potential and population. However, there is a positive trend towards the increasing cost withdrawals since 2012. According to our calculations, in 2015 the budgetary withdrawals compared to 2001 increased by 1.2 times.



**Figure 4 – Budget withdrawal in% \***  
*\*Note: compiled by the author based on data [18]*

The formation of a profitable part of local budgets is mainly due to corporate income tax and value added tax in 2015. Corporate income tax revenues brought in the amount of 33%; customs duties accounted for 26.3%; revenues for the

use of natural and other resources were equal to 5.6%; on excise taxes accounted for 2.1% of tax revenues; other taxes and fees (taxes on gambling business, other charges and fees) amounted to 1.5% (Figure 5):



**Figure 5 – Structure of tax revenues in local budgets in 2015 (in % to the total)**  
*\*Note: compiled by the author based on data [18].*

Local budgets are fixed tax revenues with stable character, therefore, the local authorities are unable

to significantly influence to the formation of their own budget revenues. The amount of taxes flowing

into local budgets, is only indirectly dependent on the degree of development of production, business, investment activity, structural adjustment of regional economies. This is what explains the weakness and inertia of the own revenues of local budgets. The paper

analyzed the relationship between the volumes of produced GRP (16 administrative-territorial units) and budget revenues of regions in 2001-2015. Correlation coefficient adopted as a determining parameter. The results of the analysis are presented in table 4:

**Table 4** – Dependence degree of local budget revenues on GRP volume

Year	Correlation coefficient «GRP – budget revenues»	Correlation degree	Correlation coefficient «GRP – own budget revenues»	Correlation degree
2001	0,92	Very	0,90	very high
2002	0,89	High	0,96	very high
2003	0,89	High	0,98	very high
2004	0,82	High	0,98	very high
2005	0,87	High	0,99	very high
2006	0,84	High	0,98	very high
2007	0,83	High	0,95	very high
2008	0,69	Medium	0,98	very high
2009	0,65	Medium	0,98	very high
2010	0,65	Medium	0,97	very high
2011	0,98	Very	0,96	very high
2012	0,97	Very	0,82	very high
2013	0,98	Very	0,88	very high
2014	0,98	Very	0,91	very high
2015	0,98	Very	0,93	very high

*\*Note: compiled by the author based on data [18]*

The relationship between budget revenues and volume of GRP decreased since 2001. Correlation coefficient was 0.92 in 2001, after it amounted to 0.65 in 2010, which shows a decrease of local budgets revenues dependence on the level of production in the area of goods and services. Correlation coefficient was 0.98 from 2011 to 2015, which indicates a positive trend. The role of tax revenues reduced in budget revenue structure. The amount of tax revenues primarily depends on the size of the GRP, respectively, are becoming increasingly important intergovernmental transfers. The budget revenue structure reduced the role of tax revenue, the amount of which depends primarily on the size of the GRP, respectively, are becoming increasingly important intergovernmental transfers.

Thus, the production of the GDP of Kazakhstan is characterized by significant regional disparities. The budget system provides budget equalization of local budgets incomes by providing transfers from the republican budget. However, the alignment of some regions is insufficient or excessive. It does not weaken but strengthens the dependence of local budgets from the regional.

As noted earlier, the regional authorities provided by limited powers in the area of the formation of their own income, thus they do not provide sufficient capacity for growth in tax revenues. There is a tendency of decline in the share of local budgets own revenues. The weakness of its own sources of replenishment of local budgets profitable part defines a high degree of subventional most regions of the country. The share of transfers from the state budget amounted to 41.8%, including subventions – 14.4% of total revenues of local budgets in 2015.

### Conclusion

Thus, the financial support will be provided only to those villages that have economic development potential and positive demographic trends (according to the criteria for the determination of rural settlements with low and high economic potential, approved by joint order of the Ministries of Agriculture and Economic Development and Trade).

In this study, presented analytical material based on a comparative analysis of the socio-economic and demographic potential of the regions.

The results of the study allow to verifying necessity of leveling regional disparities, developing the principles of economic and social equality on

the formation of the local budget in the Republic of Kazakhstan, which ultimately is to ensure political stability in the region and the state as a whole.

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