Topic 2.

FINANCIAL POLICY AND FINANCIAL MECHANISM

PLAN

1. The essence and types of financial policy.

2. The essence and elements of financial mechanism.

3. The characteristic of the methods of the financial mechanism.

3.1. The essence of financial providing and financial regulation.

3.2. The essence, types and methods of the financial planning.

3.3. The essence of the operative financial management.

3.4. The types, forms, and methods of financial control.

What essence and types of financial policy?

1. Financial policy

- ***is activity of the government and other economic subjects in the sphere of formation, distribution and using of financial resources for achieving their aim.***

Depending on character and time, financial policy is subdivided on:

- **- financial strategy;**
- **- financial tactic.**

Financial strategy and financial tactic closely interact. Strategy determines the essence and direction of tactic.

Financial strategy

- ***is long-term measures which solve perspective tasks of social and economic development.***

The orientation of financial strategy is determined by certain tasks of society on the certain historical period.

During the economic crisis a main of task of financial policy is to provide the macroeconomic stabilization, during the economic development - achievement of optimum increase of GDP.

Financial tactic

- ***is a system of measures for solving current financial problems.***

  For example: *improvement of the pension providing; taxation; reformation of interbudgetary relations and others.*

Depending on the level of the financial system, there are such types of financial policy:

- government (state) financial policy;
- financial policy of subjects of management;
- financial policy of households;
- financial policy of international organizations and financial institutes.

The government (state) financial policy includes such types:

- Fiscal policy;
- Tax policy;
- Monetary policy;
- Promissory policy;
- Customs policy
- Investment policy

The characteristic of types of government financial policy:

1. Fiscal policy is the activity of public organs of power, related to formation and implementation of budget.

A fiscal policy is expressed in forms and methods of mobilization and using of budgetary resources, for example, taxation; grants; sources of financing of budget deficit and others.

2. Tax policy is the measures in the field of the legal provision and organization of taxation.

3. Monetary policy is the measures in the field of money and credit markets, which regulate growth of the money supply and influence interest rates and availability of credit.

4. **Promissory policy** is the measures in the field of settlement of promissory problems. (conditions of getting and payment of state debt).

5. Customs policy regulates export or import of commodities in a country (by means of customs duty).

6. Investment policy is the measures directed on improvement of the investment climate and growing of investments in a national economy.

Financial policy of subjects of management

- is the system of measures, forms and methods which are used for providing of their activity and achieving established aims.

The basic types of financial policy of subjects of management are:

- policy of forming of capital;
- emission policy;
- credit policy;
- policy of forming of assets;
- policy of risks management;
- dividend policy.

Financial policy of households

- is a certain activity of citizens or families in the field of forming and using of financial resources for satisfaction of the personal needs.

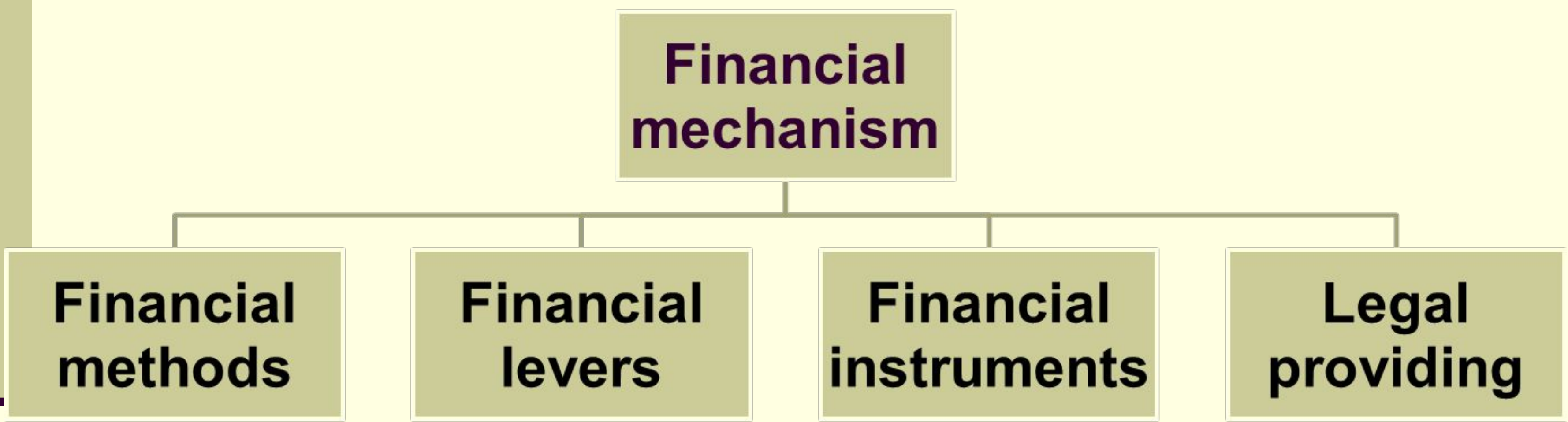
- Financial policy in the field of ***international finance*** is related to adjusting of mutual relations of the state with international organizations and financial institutions, membership in which is voluntarily. On one hand, it foresees membership rules, and on the other hand the possibilities of financial help reception.

What essence and elements of financial mechanism?

Financial mechanism

- is a combination of forms and methods of forming and using of financial resources of the subjects of economy for realization of their financial policy.

A financial mechanism functions on the basis of such components:



Financial methods are:

- *- financial providing;*
- ***- financial regulation;***
- ***- financial planning;***
- ***- operative financial management;***
- ***- financial control.***

Financial levers

1. ***incomes (taxes; no tax incomes)***
2. ***expenditures;***
3. ***financial reserve fund;***
4. ***financial transfers;***
5. ***financial privileges;***
6. ***financial sanctions***

Financial instruments

1. ***tax rates;***
2. ***rates payments to the state social insurance funds;***
3. ***rates of amortization;***
4. ***rent;***
5. ***tax privileges;***
6. ***financial fine;***
7. ***budgetary norms***

Legal providing

- are normative acts, which determine the mobilization of financial resources, rights and duties of economic subjects, e.g.: Constitution; Laws; Budgetary code; Tax code and other normative legal acts.

3. The characteristic of the methods of the financial mechanism.

3.1. The financial providing and financial regulation are special methods of financial mechanism.

The financial providing

- is forming of money funds of subjects of economic in a sufficient amount. The basic forms of the financial providing are:

- self financing;
- crediting;
- budgetary financing;
- lease;
- investing.

The financial regulation

- is a method of the state influence on economic and social process. It is carried out through the system of norms, limits, taxation and budgetary transfers: dotation, subsidies.

3.2. The financial planning

- is creation of financial plans on macro and micro levels.

The types of the financial planning:

- ***1. Strategic financial planning*** (financial plans are made for more than 1 year)
- ***2. Current financial planning*** (plans for one year)
- ***3. Operative financial planning*** (plans for less than 1 year)

The main methods of the financial planning are:

1. **Method of factors.**
2. **Method of norms.**
3. **Balance method.**
4. **Method of economic-mathematical modelling.**
5. **Analytical method**

1. Method of coefficients

This method is used for revalue of assets; planning of credits; income; profit and other financial indexes.

For example: coefficient of solvency; coefficient of liquidity, coefficient of profitability; coefficient of revalue of assets and etc.

2. Method of norms

The financial indexes are planned on the basis norms (norms of amortization, norm of expenditures of budgetary establishments).

This method is effective, if norms are stable and scientifically grounded.

3. Balance method

- is used for the concordance of all sections of financial plan (balance of incomes and expenditures).

4. Method of economic-mathematical modelling.

- This method determines the influence of separate factors on financial indexes and their dynamics (for example dependency of the growing state expenses from growing GDP).

5. Analytical method.

- The planned financial indexes are calculated on the basis of financial indexes of base period and the influence of different factors of the planned period.

3.3. The next financial method is a **operative financial management**

Operative financial management is activity in the sphere of the performance of financial plan (liquidations disproportion, removal of defects, well-time redistribution of the money and achievements of planned results).

3.4. Financial control

- is activity of the authorized bodies, which provide legality of financial operations and realization of financial policy of economic subjects.

Depending on subjects, financial control is divided into:

- **- state financial control;**
- **- public financial control;**
- **- corporate financial control;**
- **- audit.**

1. **State financial control** is intended for realization of financial policy of the state

This control is conducted by state financial organs for financial activity of the state and municipal enterprises; budgetary organizations.

The kind of state financial control is departments financial control which is conducted on separate departments.

Principles of state financial control:

- \- Independence, absence of the personal interest of the inspector.
- \- Publicity.
- \- Preventive character.
- \- Effectiveness.
- \- Systematic nature.
- \- Objective nature.
- \- All-embracing character.

2. Public financial inspection.

This control is carried out by public organizations, political parties, trade unions, MASS-MEDIA, volunteers. The purpose of this control is defining and warning of different violations in financial activity of economic subjects.

3. Corporate financial control

- **do structural subdivisions of enterprises (accountant, manager, financial department).**

  The purpose of this type of control is the verification in time of coming facilities, proper drafting and performing of the financial reports.

4. Audit

This type of control is conducted by auditing firms on initiative of proprietors. Control is carried out on commercial principles and regulated by law of public accountant activity.

There are such forms of financial control:

- **1. Previous control** is conducted before financial operations for non-admission of illegal actions.
- **2. Current control** is conducted during of financial operations.
- **3. Following control** is conducted after financial operations of certain period.

Methods of financial control:

- • **Natural method of financial control** is a verification of material assets and their accordance to the financial documents (inventory, laboratory test, check of result work).
- • **Documentary method of financial control** is a verification of financial documents (verifications or revision).

- **Verification** is an inspection of separate areas of financially economic activity of subjects on the basis of financial documents.
- **Revision (inspection)** is a method of documentary control of financially economic activity of subjects for observance of financial legislation and warning of thefts and other financial crimes.

Thank you for attention!