**TAJIK NATIONAL UNIVERSITY**

**DEPARTMENT OF FINANCE AND INSURANCE**

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**FINANCIAL POLICY DEVELOPMENT STRATEGY**

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**Chapter 1. FINANCIAL POLICY AND STRUCTURE OF THE STATE FINANCIAL MECHANISM**

**1.1. The concept of financial policy and financial mechanism**

**1.2. Types of financial policy**

**1.1. The concept of financial policy and financial mechanism**

**Financial policy -** a set of government measures to use financial relations to carry out the functions of the state.

The essence of financial policy includes:

- development of a general concept of financial policy, determination of its main directions, goals, main tasks;

- creation of an adequate financial mechanism;

- management of the financial activities of the state and other economic entities.

**The basis of financial policy** is strategic directions that determine the long-term and medium-term prospects for the use of finance and provide for the solution of the main tasks arising from the peculiarities of the functioning of the country's economy and social sphere. At the same time, the state selects the current tactical goals and objectives for the use of financial relations. All these activities are closely interconnected and interdependent.

An important component of financial policy is the establishment of a financial mechanism through which all state activities in the field of finance are carried out.

**Financial mechanism -** a system of forms, types and methods of organizing financial relations established by the state (Scheme 1.1.)

**Elements of the financial mechanism:**

- forms of financial resources;

- methods of their formation;

- a system of legislative norms and standards that are used in determining the income and expenditure of the state;

- organization of the budget system, finance of enterprises and the securities market.

**Scheme 1.1.**

**financial mechanism**

|  |
| --- |
| **Types of financial mechanism** |
| *Directive* | *Regulatory* |
| is developed for financial relations in which the state directly participates. Its scope includes: taxes, state credit, budget expenditures, budget financing, organization of the budget device and budget process, financial planning. In some cases, it also applies to other types of financial relations that are of great importance for the implementation of the entire financial policy, or one of the parties to these relations is an agent of the state (finances of state enterprises). | defines the basic rules in a particular segment of finance that does not directly affect the interests of the state. This kind of financial mechanism is typical for the organization of intra-economic financial relations in private enterprises. In this case, the state establishes a general procedure for the use of financial resources. |

The financial mechanism includes:

**- financial methods** - ways of influencing financial relations on the economic process. These include: planning, forecasting, investing, lending, financial incentives and more;

**- financial indicators** - parameters of the state of the financial system, to some extent regulated by the state financial policy;

**- legal support** - laws, decrees of the President, decrees of the Government of the Republic of Tajikistan, charter of a legal entity, etc.;

**- regulatory support** - norms and standards, guidelines, instructions for calculating financial indicators;

**- information support** - accounting and statistical reporting, and other information about the state of the financial system.

Based on the foregoing, the objectives of **financial policy are**:

1) providing conditions for the formation of the maximum possible financial resources;

2) establishment of a rational distribution and use of financial resources from the point of view of the state;

3) organization of regulation and stimulation of economic and social processes by financial methods;

4) development of the financial mechanism and its development in accordance with the changing goals and objectives of the strategy;

5) creation of an effective and maximally business-like financial management system.

In the process of conducting financial policy, it is especially important to ensure its interconnection with other components of economic policy - credit, price, monetary.

Evaluation of the results of the state's financial policy is based on its compliance with the interests of society and most of its social groups, as well as on the results achieved, arising from the goals and objectives set.

The entire financial management system is based on the financial policy of the state. The legislative and executive branches of government participate in the development of financial policy. In the Republic of Tajikistan, the priority in the development of financial policy belongs to the President of the Republic of Tajikistan, who, in his annual messages to the Parliament of the Republic of Tajikistan, determines the main directions of financial policy for the current year and for the future. The Government of the Republic of Tajikistan should act within the framework of this message in order to implement the main directions of economic development and ensure social stability in society.

At the same time, the Government of the Republic of Tajikistan, as part of the executive branch of government, develops draft laws necessary for the implementation of financial policy and submits them to the Parliament for consideration and adoption. If the Parliament does not pass the law or passes it with adjustments that distort or change the main content of the law, then this will not allow the executive branch of government to carry out financial policy in the intended direction.

The **financial policy** includes the following areas:

**- budgetary policy;**

**- tax policy;**

**- monetary policy;**

**- pricing policy;**

**- customs policy;**

**-investment policy;**

**- foreign trade policy.**

In turn, the financial policy of the state is only a means of implementing its economic and social policy, i.e. plays a supporting role. We should not forget other areas of state policy - national, geopolitical, military. The totality of these five areas determines the financial policy, which serves as the main instrument for conducting state policy. Financial policy, as part of the financial management system, is the prerogative of government authorities.

**budget policy –** this is a set of measures in the field of organizing budgetary relations in order to provide them with funds to perform their functions.

The budgetary policy of the state is determined by the Constitution of the Republic of Tajikistan, a set of other laws that establish the functions of individual authorities in the budgetary process and lawmaking. It is impossible to reduce the budget policy only to the budget process, although this is the largest work in terms of volume and importance. The law must clearly define the functions of the executive and legislative branches of power in the budget process, the functions of the subjects of the state, the principles of budgetary federalism, the rights and obligations of the subjects of the budget process, etc. However, budgetary policy does not end there.

Fiscal policy is expressed in determining the share of GDP concentrated in the budget, in the relationship between the state authorities and local hukumats, in the structure of the expenditure side of the budget, in the distribution of expenditures between budgets of different levels, in the share of the republican budget from the total amount of the consolidated budget, in the management of public debt, in determining ways to cover the budget deficit, etc.

**Tax policy** – it is an integral part of financial policy, which is a system of legal norms and organizational and economic measures adopted and implemented by state authorities and local governments in the field of tax relations with legal entities and individuals.

The most important part of financial policy is tax policy. For more than 500 years, modern financial science has clearly defined its attitude towards taxes:

• Without taxes, the state cannot exist;

• Tax withdrawals are on a solid upward trend. When the optimal tax threshold is crossed, the natural reproduction process is disrupted - the economy self-destructs;

• During a crisis, taxes should be set at the lowest possible level. In this case, the country's economic mechanism is restored by mobilizing domestic investment potential. A high tax threshold leads to capital flight;

• State regulation of the economy is necessary. However, if the total amount of net income withdrawal exceeds 30%, the country's economic growth stops. Tax incentives should be open and equal for all subjects of the reproduction process;

• The tax system should not be confiscatory. Only the growth of national wealth, expressed, among other things, in an increase in individual incomes, is able to ensure a stable increase in the tax base;

• The total value of taxes has a steady growth trend only in an economic system in which the state guarantees the stability of laws and regulations. As soon as the state violates its obligations as a guarantor of stability, capital begins to go into the shadow economy or abroad, narrowing the revenue base of the budget;

• The tax system should be simple, open and efficient. An increase in the number of taxes, objects of taxation, the introduction of multi-stage taxes leads to an increase in tax collection costs, an increase in arrears and fines, and, ultimately, to the destruction of the economy by seizing property, declaring a defaulter bankrupt, etc.;

• The prevalence of the indirect taxation system, which is the most convenient from the standpoint of generating budget revenues, leads to further impoverishment of the bulk of the country's population, since the burden of such taxes falls on the final consumer of goods and services, i.e. 80-90% of the population with incomes at the subsistence level or even at the level of social survival. This paradox is based on relatively equal levels of consumption at different levels of income;

• Indirect taxes should be introduced to limit the consumption of unhealthy goods on luxury goods, sometimes on imported goods and services, and in some other specific cases;

• The main tax base should be taxes on income and property. They should be built on the principles of proportional taxation.

The impact of tax policy on the country's economy is manifested directly - a high tax threshold narrows the investment opportunities of the reproduction process, reduces the level of consumption in society, which, in turn, reduces the growth base of the manufacturing and service sectors.

**Monetary (monetary) policy** - is a state policy that affects the amount of money in circulation in order to ensure price stability, full employment of the population and growth in real output. The central bank of the country carries out monetary policy.

The impact on macroeconomic processes (inflation, economic growth, unemployment) is carried out through monetary regulation.

Usually, the monetary policy of the central bank is aimed at achieving and maintaining financial stabilization, primarily strengthening the national currency and ensuring the stability of the country's balance of payments.

Monetary regulation is a set of specific measures of the central bank aimed at changing the money supply in circulation, the volume of loans, the level of interest rates and other indicators of money circulation and the loan capital market.

Monetary policy is an integral part of the unified state economic policy. The state economic policy should include measures to solve problems in each block. The central bank does its part - monetary policy, it is responsible for its implementation.

The role of monetary policy in the development of the economy is to achieve the maximum possible equilibrium of the money market, i.e. maintain a balance between the amount of money in circulation and the need for it.

**Types of monetary policies:**

- Rigid - aimed at maintaining a certain amount of money supply.

-Flexible - aimed at regulating the interest rate.

**Monetary policy methods:**

**1.Open Market Operations:**

The sale by the central bank of government securities on the open market to commercial banks reduces the reserves of banks, and therefore reduces the credit capacity of banks, increasing the interest rate. This method of monetary policy is applied in the short term and has great flexibility.

**2.Change in the minimum reserve ratio:**

An increase in the reserve ratio by the central bank reduces excess reserves (which can be loaned out), thereby reducing the bank's ability to expand the money supply by lending. This means of regulating the money supply is usually used in the long run.

**3.Change the discount rate:**

The rate charged by the central bank for loans made to commercial banks is called the discount rate. With a decrease in the discount rate, the demand of commercial banks for loans from the central bank increases. At the same time, the reserves of commercial banks and their ability to lend to entrepreneurs and the population are increasing. The bank interest rate on loans also goes down. The money supply in the country increases. On the contrary, when it is necessary to reduce business activity by reducing the money supply in the country, the central bank raises the discount rate. Raising the discount rate is also a way to fight inflation. Depending on the economic situation, the central bank resorts to a policy of "cheap" and "expensive" money.

**The politics of cheap money**

It is carried out during a period of low conjuncture. The central bank increases the money supply by buying government securities on the open market, lowering the reserve ratio, and lowering the discount rate. This lowers the interest rate, increases investment and increases business activity.

**Expensive money policy**

It is carried out by the central bank, first of all, as an anti-inflationary policy. In order to reduce the money supply, money emission is limited, government securities are sold on the open market, the minimum reserve ratio is increased, and the discount rate is increased.

Along with the listed methods of state regulation, which have an internal economic focus, there are special measures of external economic regulation. These include measures to stimulate the export of goods, services, capital, know-how, management services (export lending, guaranteeing export credits and investments abroad, introducing and abolishing quotas, changing the amount of duties in foreign trade).

**Monetary policy instruments:**

**Monetary base.** Monetary policy can be carried out by changing the volume of the monetary base. Central banks use open market operations to change the volume of the monetary base. The central bank buys or sells reserve assets (usually financial instruments such as bonds) in exchange for money deposited with the central bank. These deposits can be converted into cash. Together, these cash and deposits make up the monetary base, which is the central bank's liabilities denominated in its own currency. Typically, other banks can use the monetary base as a fractional reserve and expand the total money supply in circulation.

**Reservation requirement.** The monetary authorities exercise regulatory control over commercial banks. Monetary policy can be implemented by changing the amount of assets that banks must hold in central bank reserves. Banks hold only a small portion of their assets in cash available for instant withdrawal. The rest is inverted into illiquid assets such as mortgages and loans. By changing the liquidity rate, the central bank changes the amount of available credit funds. The central bank typically does not change reserve requirements often, as this creates volatile changes in the money supply due to the credit multiplier.

**Discount rate.** Discount rate lending means that commercial banks and other depository institutions have the right to borrow reserves from the central bank at a discount rate. This rate is usually set below the rates of the short-term capital market (treasury bills). This allows institutions to change the terms of lending (that is, the amount of money they can lend out), thus affecting the money supply.

**Interest rate** — the amount indicated as a percentage of the loan amount, which the recipient of the loan pays for using it for a certain period (month, quarter, year).

**Types of interest rates**

**Fixed interest rate** - permanent, established for a certain period of time and does not depend on any circumstances.

**floating interest rate** subject to periodic review. The change in the rate is carried out on the basis of fluctuations of certain indicators.

**Price policy –** these are the principles and methods of determining prices for goods and services. Variants of such a policy can be - uniform prices for all consumers, flexible prices depending on the behavior of buyers, on demand, constant prices for a certain period, unrounded prices, etc.

The pricing policy of the state is expressed in the adjustment of prices and tariffs for monopoly goods and services. Mineral resources, land, water spaces, railways, power transmission networks, etc. have been preserved in the monopoly possession of the state. Rising prices for goods and services in these industries leads to higher prices in all other sectors of the economy. Pricing policy is the most important factor in regulating the economy. Prices for the entire set of goods and services actually depend on the value of tariffs for transport and electricity, as well as prices for raw materials.

**Customs policy –** this is a set of state measures to regulate foreign trade exchange by establishing the procedure for moving across the customs border.

**customs policy** can be considered as part of the tax and pricing policy, since customs duties and taxes have a direct impact on the price of goods and services. At the same time, customs policy has its own specific way of influencing the country's economy, limiting or expanding access to the domestic market for imported goods and services and restraining or encouraging the export of goods and services from the country.

There are two types of customs policy:

1) free trade (free trading);

2) protectionism.

**Investment policy** – is an integral part of the economic policy pursued by the state and enterprises in the form of establishing the structure and scale of investments, directions for their use, sources of receipt, taking into account the need to update fixed assets and improve their technical level.

**Foreign trade policy** – this is an integral part of the economic policy of the state, which involves influencing foreign trade through economic and administrative levers (taxes, subsidies, direct restrictions on imports and exports, etc.)

**1.2. Types of financial policy**

There are three types of financial policy:

* 1. 1. Classical politics;
	2. 2. Regulatory policy;
	3. 3. Planning and directive policy.

**Classical politics**

Classical policy was the main type of financial policy in most countries until the end of the 20s of the XX century. Classical politics was based on the works of the classics of political economy A. Smith (1723-1790) and D. Ricardo (1772-1823) and their followers.

The main directions of classical politics:

- non-intervention of the state in the economy;

- preservation of free competition;

- use of the market mechanism as the main regulator of economic processes.

The state sought to reduce budget expenditures, which were reduced mainly to military spending, the payment of interest on the public debt and its repayment and management. The system of taxes (mainly indirect and property taxes) was supposed to create the necessary revenues to ensure a balanced state budget.

The financial management system was simple and concentrated, as a rule, in one governing body - the Ministry of Finance (Treasury).

**Regulatory financial policy.**

Regulatory financial policy has been developed in many countries of the world since the late 20s of the XX century and operates, undergoing some changes, at the present time.

The regulatory financial policy was based on the works on economic theory by the English economist J. Keynes (1883-1946) and his followers.

Regulatory financial policy was based on the need for state intervention and regulation of the cyclical development of the economy.

Financial policy, along with its traditional tasks, began to pursue the goal of using the financial mechanism to regulate the economy and social relations in order to ensure full employment of the population.

The main instrument of intervention in the economy is government spending, which generates additional demand.

The tax system has changed dramatically. The main regulatory mechanism is income tax, which uses progressive rates and allows to ensure the balance of the state budget at a high level of spending.

Much attention in the financial mechanism is given to the system of public credit, on the basis of which the policy of deficit financing is carried out.

The financial management system is changing. There are separate services involved in planning the budget and budget expenditures, their financing, control over the receipt of taxes, and management of public debt.

In general, the Keynesian regulatory financial policy ensured stable economic growth, a high level of employment and an efficient system of financing social needs in most countries in the 30-60s.

In the 1970s, the neoconservative strategy associated with the neoclassical direction of economic theory was put at the basis of financial policy. Without abandoning state intervention in the economy and the social area as a whole, it significantly limited it.

The financial mechanism under these conditions proceeds from the need to reduce the volume of redistribution of national income through the financial system, reduce the budget deficit, stimulate the growth of savings as a source of industrial investment. The task is to reduce and reduce the degree of progressivity of taxation.

It should be noted that various types of regulatory financial policy are closely interconnected. Therefore, the same or similar instruments of the financial mechanism are used in different countries using both Keynesian and neoconservative regulatory systems, which leads to their convergence.

**Planned and directive financial policy.**

It is used in countries using the administrative-command system of economic management.

The planned and directive financial policy is based on state ownership of the means of production, which allows for direct directive management of all spheres of the economy and social life, including finance.

The purpose of the planned and directive financial policy is to ensure the maximum concentration of financial resources from the state for their subsequent redistribution in accordance with the main directions of the state plan.

The main task of the financial mechanism is the creation of tools with the help of which the withdrawal of all unused resources in accordance with the state plan is carried out. Withdrawal of funds was carried out from state enterprises, the population and local authorities.

Financial management was carried out from a single center of the Ministry of Finance, which dealt with all issues of using the financial mechanism in the national economy.

A planned and directive financial policy was carried out in almost all former socialist countries. It showed its rather high efficiency in the years when the maximum concentration of financial resources was required to finance emergency government spending (during the Second World War, the restoration of the national economy, etc.). At the same time, the use of such a financial policy in the conditions of the normal functioning of the economy led to negative consequences: a decrease in production efficiency, a slowdown in the development of the social sphere of society, and a sharp deterioration in the financial situation of the state.

**Control questions**

1. What is the essence of the state's financial policy?

2. Describe the modern budgetary policy of the Republic of Tajikistan.

3. What is the specificity of the fiscal and budgetary policy of the state?

4. The solution of what problems does the monetary policy provide?

5. What changes in tax policy took place during the crisis in 2012?

6. Give examples of the use of government fiscal policy instruments.

7. What is a tax multiplier?

8. What control functions are assigned to the Ministry of Taxes and Duties of the Russian Federation?

9. Determine the objectives and content of the audit, its form.

10. What is meant by the "Laffer effect"?

11. What financial management functions are assigned to the Government of the Republic of Tajikistan?

12. List the main functions of the Ministry of Finance of the Republic of Tajikistan.

13. What is the structure of the Ministry of Finance of the Republic of Tajikistan?

14. Describe the tasks, types and forms of financial control.

15. What financial control bodies exist in the Republic of Tajikistan?

16. What functions does the Accounts Chamber perform?

17. What are the specifics of the control functions of the Treasury of the Republic of Tajikistan and the Department of State Financial Control and Audit of the Ministry of Finance of the Republic of Tajikistan?

18. Describe the budget policy;

19. What is the tax policy of the country;

20. What is the credit policy;

21. What is monetary policy;

22. What is the investment policy for?

23. What is the policy of economic growth;

24. What is the economic stabilization policy for?

**Тесты**

@1. Was economic theory embedded in the basis of regulatory financial policy?

+$A John Maynard Keynes;

$B Adam Smith;

$C David Ricardo;

$D Friedrich von Hayek;

@2. Depending on the degree of legislative or administrative regulation of financial relations, which is characterized by the share of income distributed and consumed in accordance with applicable law and administrative decisions, the following types of financial policy are distinguished:

$A Strict regulation;

$B Moderate regulation;

$C Minimum Restriction Policy;

+$D All answers are correct;

@3. This financial model of a market economy is characterized by a moderate level of GDP centralization in the budget of 35-45%. Due to the high level of GDP centralization, the state social sphere is also more ramified, primarily in the field of education. The essence of the model is reduced to the parallel functioning of public and commercial institutions in the social sphere.

$A American;

$B Scandinavian;

$C Western European;

$D None of the models listed;

@4. Secondary distribution, is a composite distribution function characterized by how?

$A distribution of added value and formation of primary incomes of entities involved in the creation of GDP;

$B creation and use of centralized funds;

+$C second stage of redistribution;

@5. What are the functions of the State Treasury?

+$A completeness and timeliness;

$B Control and Distribution;

$C Stimulating and where stimulating;

$D Social;

@6. The fiscal policy of the state is conditionally divided into:

+$A Tax and budget policy;

$B Stock and insurance policy;

$C Fiscal and debt policy;

$D Social and financial policy;

@7. By the nature of the implementation of financial policy is divided into?

$A Policies of moderate, minimal, strict regulation;

$B Stabilization, growth and business policies;

+$C discretionary but not discretionary;

$D No correct answer;

@8. Legal support includes: (Several correct answers are possible).

$A Rules and regulations;

$B Ordinances and orders;

$C Legislation;

$D Institutions and tariff rates;

@9. The classical type of financial policy was the most dominant in?

$A) 1920s;

$B) 30-60s of the XX century;

$C) 1939-1945s of the XX century;

$ D) 60-90s of the XX century;

@10. Which of the following types of financial policy is widely used in countries with an administrative-command system?

$A) Classic type;

$B) Type of regulatory financial policy;

$C) Type of planning directive policy;

@11. The function of the built-in stabilizers is primarily performed?

$A) Loans;

$B) Taxes;

$C) Grants;

$D) Accumulated Funds;

@12. Which of the following types, depending on the degree of legislative regulation of financial relations, is characterized by a focus on the formation of the maximum interest of business entities and citizens in effective management.

$A) Rigid regulation;

$B) Moderate regulation;

$C) Minimum Restrictions Policy;

$D) There is no correct answer;

@13. The following financial levers play an important role in the financial mechanism:

$A) Profit and income;

$B) Depreciation charges and investments;

$C) Dividends, interest rates on deposits, loans, bonds;

$D) All answers are correct;

@14. The stabilization policy aims at;

$A) Maintaining macroeconomic equilibrium based on constant output and price stability. Its implementation is based on ensuring stable volumes of financial resources with constant proportions of distribution and redistribution of income received;

$B) Achievements for the country of the level of annual increase in GDP, taking into account their potential. It is aimed at expanding the volume of financial resources and ensuring their availability both in terms of prices and terms of attraction;

$C) Managing the business cycle to prevent an overproduction crisis or economic exhaustion due to excessive economic growth. Characterized by cutting costs, increasing the level of taxation, setting high interest rates on loans;

@15. Which policy includes two varieties. The first is the policy after the economic recession, which is stimulating, the second after the economic recovery, which is restrictive.

$A) Economic growth policy;

$B) Business containment policy;

+$C) Stabilization policy;

$D) No answer;

@16. The implementation of the financial policy of economic growth can be carried out in such ways; (More than one correct answer is possible.)

+$A) Due to increased government spending;

$B) for government spending cuts;

+$C) for tax cuts;

$D) Setting high interest rates on loans;

@17. The financial method is implemented through:

$A) Allocation and redistribution of budgetary funds;

+$B) Financial incentives and responsibility for the efficient use of funds;

$C) for reducing the amount of public debt;

$D) Increase in the cost of maintaining the country's administrative apparatus;

@18. A directive financial mechanism is being developed for financial relations in which:

+$A) the state is directly involved;

$B) individual government bodies are directly involved;

$C) directly involved municipalities;

$D) No answer;

@19. What policy does the state use to ensure national interests and protect them:

$A) Investment;

$B) Tax;

$C) Social;

+$D) Customs;

**CHAPTER 2. BUDGET AND TAX (FISCAL) POLICY**

**2.1. The concept and main provisions of fiscal policy.**

**2.2. Types of fiscal policy.**

**2.1. The concept and main provisions of fiscal policy.**

**Fiscal policy is the measures that** the state takes to influence the economy by changing the amount of revenues and expenditures of the state budget.

Often, instead of the term “budgetary and tax”, its synonym “fiscal” is used (from Latin fiscus - state treasury and fiscalis - related to the treasury).

**Fiscal (Fiscal) Policy** – state measures to change public spending, taxation and the state of the state budget, aimed at ensuring full employment, equilibrium of the balance of payments, economic growth in the production of GDP (GNP).

The objectives of **fiscal policy** are to ensure:

1) stable economic growth;

2) full employment of resources (first of all, solving the problem of cyclical unemployment);

3) a stable price level (solution to the problem of inflation).

**The main instruments** for implementingfiscal policy are **tax and budget regulators.**

**To tax regulators** include established types of taxes and payments, their structure, objects of taxation, subjects of payments, sources of taxes, rates, benefits, sanctions, terms of collection, methods of payment, etc.

As **budget regulators,** the level of centralization of funds by the state, the ratio between state and local budgets, the budget deficit, the ratio between the state budget and extra-budgetary funds, the budget classification of income and expenditure items, etc.

Fiscal policy is carried out by the government of the country with the participation of legislative bodies that approve the budgets of various levels for the coming year.

Incomes of budgets of all levels are divided into **tax and non-tax.**

At the same time, tax revenues form the bulk of budget revenues from 80 to 95% of budget revenues in different countries and different years.

Tax revenues include revenues to the budget of the corresponding level of own taxes assigned to this budget and parts of regulatory revenues due to this level of the budget (i.e. taxes for which deduction rates (as a percentage) to budgets of different levels are set).

A tax is understood as a mandatory, individually gratuitous payment levied from organizations and individuals in the form of alienation of funds belonging to them by right of ownership, economic management or operational management of funds in order to financially support the activities of the state and local authorities.

Non-**tax budget** revenues include:

• income from the use and sale of state-owned property;

• income from paid services rendered by budgetary institutions;

• Funds received in the form of fines, confiscations, compensations, as well as compensation for harm caused to the Republic of Tajikistan;

• income in the form of financial assistance received from budgets of other levels, except for budget loans, as well as gratuitous transfers from individuals and legal entities, international organizations and foreign governments.

**Budget expenditures** are divided into **current and capital.**

**Current expenses** are related to ensuring the functioning of public authorities, budgetary institutions, state support for budgets of other levels and individual sectors of the economy, etc.

**Capital expenditures** provide for the innovation and investment activities of the state and include investments in existing or newly created organizations; budget loans for investment purposes to legal entities; expenses for major repairs, as well as for the creation or increase of state-owned property. The development budget can be formed as part of the capital expenditures of budgets.

**2.2. Types of fiscal policy**

**fiscal policy** The state involves the use of the state's ability to levy taxes and spend state budget funds to regulate the level of business activity, to solve real social problems.

Fiscal policy includes the following types:

**1) Discretionary policy,** based on tough conscious intervention in the economy;

**2) non-discretionary (automatic) policy,** based on automatic stabilization of the economy.

**Discretionary policy** called active fiscal policy, it means a legislative (official) change by the state of the value of government purchases, taxes and transfers in order to stabilize the economy. It can be carried out with the help of both direct and indirect instruments. The first include changes in government purchases of goods and services, transfer payments. The second - changes in taxation (tax rates, tax benefits, tax base), accelerated depreciation policy.

There are two types of **discretionary policy** (depending on the phase of the cycle in which the economy is):

**1. Stimulating fiscal policy** carried out during a period of recession, depression. It aims to reduce the recessionary output gap and lower the unemployment rate and is aimed at increasing aggregate demand (aggregate spending).

The instruments of **stimulating fiscal policy** are:

a) increase in government purchases;

b) tax cuts;

c) increase in transfers.

It leads to a budget deficit.

**2. Restraining (restrictive) fiscal policy** carried out during the boom and inflation (when the economy overheats). It aims to reduce the inflationary output gap and reduce inflation and is aimed at reducing aggregate demand (aggregate spending).

**The instruments of contractionary fiscal policy** are:

a) reducing government purchases;

b) an increase in taxes;

c) reduction of transfers.

It leads to an excess of the state budget.

Thus, the main purpose of discretionary fiscal policy is to counter the cyclical fluctuations of the economy by stimulating or limiting aggregate demand. Therefore, it is called anticyclic (stabilization).

Р Let's consider the impact of fiscal policy instruments on the economy.

The government spending multiplier **μg** shows the change in output, income as a result of changes in government spending. It can be calculated using the formula:

**μg = ∆Y/ ∆G,**

where: **∆Y** – change in real national product (income);

**∆G** – change in government spending.

The government spending multiplier is equal to the investment multiplier because they have the same effect on the economy. Indeed, the growth of government purchases (as well as investment) creates additional demand for goods and services, which causes a primary increase in income equal to the increase in government spending. Part of this income, determined by the marginal propensity to consume, will be used for consumption, which will lead to a further increase in aggregate demand and national income, and so on. Therefore, a change in government spending sets in motion the same process of multiplication of national income as a change in private investment. Therefore, the government spending multiplier can also be determined by the formula:

**μt = 1/(1 – MPC).**

To determine the change in real national product (revenue) received as a result of an increase in government purchases, it is necessary to multiply the multiplier **μg** by the increase in government spending **∆G.**



|  |  |
| --- | --- |
| a) stimulating fiscal policy | b) contractionary fiscal policy. |

**Fig.3.1. Types of fiscal policy.**

During periods of economic recovery, when private spending is large enough, the state reduces the purchase of goods and services. The reduction in public spending is accompanied by a downward shift in the total expenditure curve **(C + I + G)** and leads to a multiplier decrease in the volume of the national product, income.

Just like changes in government purchases, the volume of output, income, is affected by changes in transfer payments, which are an element of government spending. However, the effectiveness of their influence on demand, and hence on the volume of the national product, is somewhat less. This is explained by the fact that transfer payments to the population lead to an increase in its income, but only a part of them, determined by the marginal propensity to consume (MPC), is used by the population for consumption, increasing total spending by the same amount. The mechanism of influence of changes in transfer payments on output and income is similar to that which operates when taxes are changed.

If the government introduces a lump-sum tax on the population (for example, 16 million somoni), this will cause a decrease in consumption (for example, by 12 million somoni), which will lead to a reduction in total spending by the same amount. The decrease in costs and demand will be accompanied by a reduction in production until a new equilibrium state is reached.

The tax multiplier is less than the government spending multiplier. This is explained by the fact that a change in government purchases by one monetary unit leads to the same change in total expenditures, and a change in the lump-sum tax per monetary unit is accompanied by a change in total expenditures on MRS \* 1. Therefore, the tax multiplier will be equal to:

**μt =МРС \* μg или μt = МРС / (1 – МРС).**

The same formula can be used to calculate the transfer payout multiplier. However, if an increase in taxes leads to a reduction in the national product and income, then the growth of transfer payments, on the contrary, contributes to their increase.

In practice, lump-sum taxes are quite rare. Generally, as output and income increase, taxes increase. Consider how a change in proportional tax rates affects total spending and national product.

Assume that at a tax rate equal to zero, the economic system will be in equilibrium. Assume that the state imposes a proportional income tax, the rate of which is t. If the income of the population before the introduction of the tax was Y, then after the tax was levied, disposable income can be calculated as follows:

**Y – tY = (1 – t)Y.**

Autonomous taxes will not be taken into account in the calculations. This means that MPC \* 1 was spent on consumption from each monetary unit of income, and now:

(1-t) MPC, i.e. the new marginal propensity to consume MPC will lead to a decrease in the slope of the total expenditure curve, i.e. to her shift. The equilibrium point will move, which will lead to a reduction in the volume of national production. Taking into account the new value of the marginal propensity to consume MPS, the tax multiplier can be calculated using the formula:

**μt’ = 1/(1 – MPC’) = 1/ (1-t)MPC).**

To determine by what amount the equilibrium output (income) was reduced by the introduction of the tax rate t, it is necessary to multiply the initial reduction in consumer spending resulting from the introduction of the income tax by a multiplier. If before the introduction of the tax, the level of national income was Y1 = Q1, then after its withdrawal, disposable income decreased by tY1, and consumer spending - by MPCtY1. Therefore, the equilibrium national income has decreased by the following amount:

**dY = - μt’ MPCtY1 = (-1/(1-t)MPC) MPCtY1.**

Similar reasoning takes place in the opposite case, when the tax rate decreases and the national income increases.

Thus, conducting a discretionary fiscal policy requires the implementation of measures to balance the state budget, which involves:

1) financing deficits;

2) liquidation of budgetary surpluses.

Two main methods of financing the deficit are used: loans from the population through the sale of securities and the issue of money.

**Non-discretionary fiscal policy** due to the fact that, to a certain extent, changes in the relative levels of government spending and taxes are automatic. In this case, taxes and transfers act as automatic built-in stabilizers of the economy - shock absorbers of cyclical fluctuations that do not require conscious government intervention. Built-in stability is the mechanism by which automatic stabilizers work.

The state determines the standards of public spending and the amount of tax rates, but not the tax revenues themselves. The latter change even at a constant tax rate.

Automatic fiscal policy is associated with the action of built-in (automatic) stabilizers.

**Embedded** (or automatic) **stabilizers** are instruments whose value does not change, but the very presence of which automatically stabilizes the economy, stimulating business activity during a downturn and restraining it during overheating.

**Automatic stabilizers** include:

1) income tax (including household income tax and corporate income tax);

2) indirect taxes (primarily value added tax);

3) unemployment benefits;

4) poverty benefits.

**The income tax** works as follows: during a recession, the level of business activity (Y) decreases, and since the tax function has the form:

**Т = tY,**

where: T - the amount of tax revenues;

**t** is the tax rate;

**Y** is the value of total income (output).

In this case, the amount of tax revenues decreases, and when the economy "overheats", when the value of actual output is maximum, tax revenues increase. The tax rate remains unchanged. However, taxes are withdrawals from the economy that reduce the flow of spending and therefore income. It turns out that withdrawals are minimal during a recession, and maximal during overheating.

Thus, due to the presence of taxes (even lump-sum, i.e. autonomous), the economy, as it were, automatically “cools down” when it overheats and “warms up” during a recession. The appearance of income taxes in the economy reduces the value of the multiplier (the multiplier in the absence of an income tax rate is greater than in its presence:

**[1/(1- mpc)] > [1/(1- mpc(1- t)]),**

which enhances the stabilization effect of income tax impact on the economy.

It is obvious that a progressive income tax has the strongest stabilizing effect on the economy.

**VAT** provides built-in stability in the following way. During a recession, sales decrease, and since VAT is an indirect tax, part of the price of a product, when sales fall, tax revenues from indirect taxes (withdrawals from the economy) decrease. In overheating, on the other hand, as total income rises, sales increase, which increases revenue from indirect taxes. The economy will automatically stabilize.

With regard to unemployment and poverty benefits, the total amount of their payments increases during a recession and decreases during a boom, when there is "overemployment" and income growth. Obviously, in order to receive unemployment benefits, you need to be unemployed, and to receive poverty benefits, you need to be very poor. These benefits are transfers, i.e. injections into the economy. Their payment contributes to the growth of income, and, consequently, expenses, which stimulates the recovery of the economy during a recession. A decrease in the total amount of these payments during a boom has a moderating effect on the economy.

In developed countries, 2/3 of the economy is regulated by discretionary fiscal policy and 1/3 by built-in stabilizers.

**The main advantage of non-discretionary fiscal policy** in that its tools (built-in stabilizers) turn on immediately at the slightest change in economic conditions, i.e. there is practically no time lag.

**Lack of Automatic Fiscal Policy** in that it only helps smooth out cyclical fluctuations, but cannot eliminate them. It should be noted that the higher the tax rates, the larger the transfer payments, the more effective the non-discretionary policy.

**Control questions**

1. Fiscal policy for what it is needed;

Economic policy is…;

3) social policy is.

4. What are the objectives of financial control?

5. Name the bodies exercising state financial control.

6. Give the characteristic of the financial control on methods of carrying out.

7. Describe audit as a method of financial control.

8. List the types of financial policy.

10. What measures are used by the government when pursuing a policy of economic growth?

11. List the instruments of budget policy.

**Test**

@1. The forced budget deficit is a consequence

A) "borrowed" finance policies

+B) economic and social crisis

C) irrational planning

D) hidden overstatement of the expenditure part of the budget

E) financial policy

@2. Sources of covering the budget deficit

A) government loan

B) interbank loan

+C) government loans, issue of money

D) external, internal

E) mobilization of free funds of enterprises and the population

@3. The vertical structure of the budget is characterized

A) interbudgetary relations

B) organizing relationships between different budgets

C) options for structural budgeting

D) the principles of building a budget system

+E) budget device, budget system

@4. Budget device shows

+ A) ways to build a budget system

B) the totality of budgets formed in the state

C) intergovernmental relations

D) division of income and expenses between the links of the budget system

E) types of budgets

@5. Vertical levels of budgets are set accordingly

A) autonomy of budgets

+ B) the political structure of the state and the administrative - territorial division

C) decentralization of budgets

D) unification of centralized and decentralized budgets

E) create multiple budget levels

@6. The most important direction of the budget device

A) covering the budget deficit

B) ensuring the balance of income and expenses

C) vertical division of budgets

+D) delimitation of revenues and expenditures between budgets

E) building a budget system

@7. Budget Spending Approaches

A) centralized, decentralized

B) social, from departmental subordination

C) on a territorial basis, social

D) budgetary regulation, consolidation

+ E) on a territorial basis, from departmental subordination

@8. All incomes are divided into groups

+A) fixed, regulating

B) state, local

C) centralized, decentralized

D) vertical, horizontal

E) higher, lower

@9. Intergovernmental relations are divided into

A) fixed, regulating

+ B) vertical, horizontal

C) state, local

D) centralized, decentralized

E) external, internal

@10. The budget system of Ukraine includes levels

A) state, local

B) vertical, horizontal

+C) nationwide, regional, district, lower

D) autonomous, subordinate

E) interbudgetary, general

@11. The structure of the budget system is characterized

A) the share of certain types of budgets in the budget system

B) the share of certain types of budgets in the financial system

C) the share of certain types of budgets in the financial market

+ D) the share of certain types of budgets in the consolidated budget

E) the share of certain types of budgets in the national level of the budget system

**TOPIC 3. ESSENCE AND METHODOLOGICAL FOUNDATIONS OF THE DEVELOPMENT OF THE FINANCIAL STRATEGY OF THE FIRM**

**3.1. Concept, goals, objectives and types of financial strategy**

**3.2. Principles of formation of the company's strategy**

**3.3. Development of financial strategy**

**3.1. Concept, goals, objectives and types of financial strategy**

The financial strategy is one of the most important types of the enterprise's functional strategy; it provides all the main directions for the development of financial activities and relations, forming long-term financial goals. The financial strategy looks for the most effective ways to achieve them and timely adjusts directions in the face of changing external environment.

The theory of financial strategy studies the objective patterns of market economic conditions, develops new ways of functioning in the new conditions of conducting strategic financial transactions.

The financial strategy of the enterprise includes all aspects of the enterprise, including the optimization of fixed and working capital, cashless payments, profit distribution, tax policy, pricing policy, etc.

The company's strategy ensures that the financial and economic capabilities of the enterprise correspond to market conditions, while taking into account financial capabilities and taking into account internal and external factors. In case of failure to develop a financial strategy, the company may face bankruptcy.

The general financial strategy developed by the company is developed on the basis of market requirements, taking into account the company's opportunities and risks. When developing, it is necessary to solve the problems of forming finance and distribute it by performers and areas of work. The validity period of the developed financial strategy is one year.

All activities of the company are covered by the financial strategy, for example: optimization of fixed and working capital, formation and distribution of profits, cash settlements and investment policy. Financial strategy explores the objective economic patterns of market relations.

The development of a strategy involves the use of methods and practices for the formation of financial resources, their planning and ensuring financial sustainability. Taking into account the financial capabilities of the enterprise and an objective assessment of external and internal factors ensures that the developed financial strategy complies with certain market conditions. The strategy provides for the setting of long-term goals of financial activity and the choice of effective ways to achieve them.

The goals of the financial strategy are subordinated to the general strategy of economic development and are aimed at maximizing profits and the market value of the enterprise.

Based on the financial strategy, the financial policy of the enterprise is developed in the following main areas of financial activity:

• tax policy;

• depreciation policy;

• price policy;

• dividend policy;

• investment policy.

When developing a strategy, special attention is paid to the competitiveness of products, cost reduction, the formation and distribution of profits, the efficient use of capital, etc.

In the educational literature on financial strategy, there is still a single definition of the essence of financial strategy. But there are two most correct points of view of various authors:

1) financial strategy - the overall strategy of the enterprise, since all indicators of the enterprise ultimately come down to financial issues;

2) financial strategy - a functional strategy of the enterprise, i.e. a set of goals and objectives in the field of financial activity of the enterprise.

The goals and objectives of the financial strategy are formulated in the following areas:

• formation of financial resources;

• use of financial resources;

• financial security;

• quality of financial work.

The strategy is aimed at adapting the company to a rapidly changing environment, so it should answer the following questions:

• what kind of product will be, quality and quantity;

• determination of the sales market for products;

• a clear plan for the implementation of activities.

Goals are the key results that the company strives for in the implementation of its activities. You can also note the goals that are subordinate to the general strategy and aimed at maximizing the value of the enterprise:

• creation of financial resources and their centralized management;

• identifying the most important areas and focusing on their implementation, competent use of reserves by the management of the enterprise;

• step by step achievement of goals;

• compliance of financial actions with the economic condition and material capabilities of the company;

• an objective assessment of the financial and economic situation and the financial position of the company for a given period;

• formation of strategic reserves;

• taking into account the capabilities of competitors;

• identification of risks;

• maneuvering and fighting for the initiative to achieve decisive superiority over competitors.

In market conditions of management, the financial strategy performs the following tasks:

• explores the patterns and nature of the formation of finance;

• develops conditions for the preparation of various options for the formation of the company's financial resources and an action plan for financial management in the event of a crisis in the company;

• establishes relationships with suppliers and buyers, budgets of all levels and banks;

• requires rational use of production capacities, fixed assets and working capital;

• provides financial resources necessary for production and economic activities;

• ensures effective investment of the company's free cash in order to maximize profits;

• development of ways to conduct an effective financial strategy and use of financial opportunities, development of new types of products and qualified training of enterprise personnel;

• studying the strategic views of competitors, their financial capabilities;

• implementation of financial sustainability measures;

• development of ways out of a crisis situation, methods of personnel management of an enterprise in crisis conditions.

When developing the company's strategy, a special place is given to identifying sources of cash income, mobilizing internal resources, minimizing the cost of production, proper distribution and use of profits, determining the need for working capital, rational use of the company's capital.

When developing a financial strategy, it is necessary to take into account the risks of non-payment, lower inflation, which is relevant in the current economic situation in the country. The strategy should be consistent with production objectives and, if necessary, be amenable to adjustment. Control over the implementation of the financial strategy ensures the verification of income, their economical and rational use, as well-established financial control helps to identify internal reserves, increase the profitability of the economy, increasing cash savings. An important part of the financial strategy is the development of internal standards used in foreign practice.

The success of a financial strategy is determined by the fulfillment of the tasks set, while balancing the theory and practice of financial strategy, taking into account risks and competitors in the market.

Financial strategy can be divided into 3 types:

1. General financial strategy;

2. Operational financial strategy;

3. Strategy for the implementation of individual strategic tasks.

Let's take a closer look at the types of financial strategies.

The general financial strategy is a strategy that determines the activities of the enterprise. Provides for accounting for relationships with budgets of all levels, the formation of the company's income, the need for financial resources and sources of their formation for the year.

In the works of I. A. Blank, subspecies of the general financial strategy of the enterprise are distinguished:

• strategy of financial support for accelerated growth of the enterprise. (It is used with the rapid growth of the potential for the formation of financial resources of the company);

• the strategy of financial support for the limited growth of the enterprise. (Used to ensure efficient allocation and use of resources);

• anti-crisis financial strategy of the enterprise.

(It is carried out with a sufficient level of enterprise security).

An operational financial strategy is a strategy for the current maneuvering of financial resources. It implies control over the rational use of funds and the use of internal reserves, especially in the current conditions of an unstable economy.

The operational financial strategy includes gross revenues and receipts (settlements with customers, receipts from credit transactions, income from securities) and gross expenditures (settlements with suppliers, wages, repayment of obligations). This strategy provides for all future turnovers in terms of cash income and expenses.

The best position is considered equal income and expenses or excess income. The operational strategy is developed within the framework of the general financial strategy, detailing it for a specific period of time. Designed for a short duration.

The strategy for fulfilling individual strategic tasks lies in the skillful execution of financial operations aimed at ensuring the implementation of the main strategic goal. Has no time limits. The relationship of species can be characterized by this scheme, shown in Figure 1.1.

Types of financial strategy

Strategy for the current maneuvering of financial resources

It consists in the skillful execution of financial transactions

Defines the activity of the enterprise

**Figure 3.1** - Interrelation of types of financial strategy

According to the direction of development, the strategy of an enterprise can be: technological and product.

The technological strategy of a company implies a set of strategic decisions that determines the technological type of the enterprise and the dynamics of the enterprise. Forming a technological strategy, special attention is paid to the competitiveness of the company, i.e. the availability of substitute products.

A product strategy is developed directly for the development of a new product. Its focus is the creation of new types of products and increasing the competitiveness of the existing product range. When choosing to develop a product strategy, financial management needs to be prepared to make difficult decisions about production volumes, customers, and price caps. The center of the formation of a product strategy is the management of the process of development and development of product innovations.

In general, we can summarize briefly in order to understand the essence of financial strategy: financial strategy is a project of measures to provide the company with cash. The strategy includes both theoretical and practical issues, the formation of finances, their planning and provision. The financial strategy of the enterprise solves the problem of ensuring the financial stability of the enterprise in a market economy.

Depending on the external conditions for the implementation of one or another version of the general financial strategy, an operational financial strategy is developed on a quarterly basis, taking into account the financial indicators achieved in the previous quarter. If necessary, a strategy can be developed to achieve private goals both for the year and for the quarter.

Financial strategy involves the use of financial resources and their formation for the purposes of implementing the company's initial strategy. It allows the economists of the organization to create resources and use them optimally for the normal functioning of the company.

In a market economy, the development of a financial strategy is preceded by an economic analysis, which includes:

• analysis of financial and economic activities of the company;

• analysis of external and internal factors of influence.

The analysis of financial and economic activity gives a clear assessment of the company's performance, determines the factors for reducing the cost of production, ways to increase profits and increase labor productivity, the nature of the load and the effectiveness of the use of funds.

* It is recommended that the analysis be carried out along the following lines, as it provides the rationale for strategy development:
* • the company's ability to pay obligations;
* • the limit to which the company can be financed by borrowed funds;
* • efficient use of resources;
* • management efficiency.

The financial strategy includes the components that are necessary for development. The main components are as follows:

1. The structure of entrepreneurship. Strategic goals and basic strategy, which are expressed in numerical terms, affect the basic principles of the strategy, which is developed by special economic services:

• directions of profit distribution;

• maintaining liquidity;

• increase in the company's assets;

• identification of funding sources.

2. Structure of accumulation and consumption. This component implies the ratio between consumption and accumulation funds, which ensure the implementation of the strategy.

3. Debt strategy. It involves the definition of the main elements of a credit plan: from obtaining a loan, its amount and ending with a repayment schedule. This component requires special attention, since the creditworthiness of an enterprise is one of the properties of a stable existence of a company in the market. That is why the methods of obtaining and repaying loans stand out as a separate strategy.

4. Strategy for financing functional strategies and major programs. Assumes the management of financing of functional strategies, which does not fit within the annual period. This strategy includes capital investment decisions:

• for social programs

• restoration and improvement of assets

• new construction and acquisition.

When all components of the financial strategy are implemented, the next step is to develop a long-term financial plan, which is considered as a document that balances functional strategies, programs for achieving strategic goals and enterprise development.

In developing a strategy, the following principles should be taken into account:

• the principle of simplicity;

• the principle of constancy;

• the principle of security.

The principle of simplicity of the financial strategy implies elementary in its construction and accessibility for perception by the company's employees. This will direct the forces of employees to achieve it.

The principle of constancy of the strategy is determined by the fact that in case of any changes in the implementation process, other divisions of the company will not be able to reorganize and will lead to an imbalance in functioning.

The security of the strategy assumes that the strategy is developed taking into account all changes in the external environment. It implies the presence of financial reserves.

**3.2. Principles of formation of the company's strategy**

The financial strategy is developed in order to determine the position of the corporation in the capital market, to increase the development of relationships with the external business environment, as well as the effective use of financial resource potential and its consolidation. The structure of the financial resources of the enterprise is shown in fig. 3.2.1.

Enterprise financial resources

Involved funds

Enterprise income

cash funds

Budget subsidies

Charter capital

Profit from operating activities

Sinking fund

Long-term loans of banks and organizations

Profit from financial operations

Revenue from other activities

Production Development Fund

Insurance claims

Reserve and other funds

Financial resources attracted on equity basis, accounts payable

**Figure 3.2.1.** The structure of the financial resources of the enterprise

The general principles of planning were derived and developed by Henri Fayol. He named five basic principles for the development of an action program or enterprise plans. In modern Russian science and planning practice, in addition to these typical planning principles, there are also general economic principles:

• consistency,

• purposefulness,

• complexity,

• optimality,

• efficiency,

• scientific character,

• priority,

• balance,

• and etc.

Often in practice, in the process of developing a financial strategy, classical and general economic planning principles are used. Financial strategic planning has specific features: the priority of the strategic plan over other plans, taking into account the real capabilities of the company, paying attention to a large number of external and internal factors, focusing on the future, etc. All these factors are the most important prerequisites for the existence of their own specific principles of financial strategic planning.

In the educational literature, there are 10 such principles of strategy planning:

• the principle of purposefulness;

• the principle of perspective;

• principle of priority;

• principle of feasibility;

• the principle of phasing;

• the principle of iteration;

• the principle of complexity;

• the principle of continuous monitoring of development trends;

• principle of selectivity;

• the principle of strategic competition.

Let us consider in more detail the principles of planning a financial strategy. The principle of purpose. Focused on a clear formulation of the strategic goal of the company. All planned financial and organizational actions must ensure the achievement of the goal. To implement this principle, it is necessary to ensure the use of the "goal tree" method - this is a set of subordinate and structured goals, starting with the main goal and ending with the goals of the first level of management.

The principle of perspective. Strategy planning should be directed to the long term. Strategic decisions play an important role in the fate of the enterprise for a long time. Decisions made should have positive consequences. When developing a strategy, you need to understand that mistakes are very difficult to correct. In addition, no operational methods can change the consequences.

The principle of priority. When choosing a specific financial strategy, the company's management must adhere to the plan line in the future, subordinating their actions to strategic priorities. But, given the long-term, strategic management is carried out in conditions of high uncertainty. In view of this, the management of the enterprise should always be ready to make adjustments to the plan. Changes should be justified and should not be allowed to go beyond the agreed concept of development. The long-term strategy is in priority and determines the attitude towards all subsequent work. This or that chosen financial strategy and the way of its implementation -

this is the foundation for building all operational plans for the company. The principle of realizability. When setting long-term goals and determining a strategy for achieving them, the real capabilities of the enterprise are taken into account. The goals set must be achievable, and the tasks must be achievable. When an enterprise is just introducing a strategic planning system, at the initial stage, conditionally easily achievable strategic goals should be set so that they can be accurately realized. The working mechanism of strategic planning compensates in the future for possible small losses from the fact that the enterprise redistributed its attention between current and strategic activities.

The principle of phasing. The implementation of the financial strategy in the company's activities is carried out in several stages: the resolution of long-term tasks is carried out through the implementation of medium-term and short-term goals. Thus, the finally adopted strategic goal will be achieved through a detailed study of all the issues raised. An important aspect of this principle is the control over the implementation of the strategy. The more long-term the strategy, the more points of control over execution should be. For the effective implementation of the plan, it is necessary to develop many strategic development projects. For each individual project, goals and end results are determined, a work plan is developed, a project team is formed, a motivation system is set, etc.

The principle of iteration. In strategic management, this principle means that the very process of developing a strategy requires a cyclical passage through the entire developed plan several times. The company is forced to go through the same plan several times because there is no beginning in the cyclical process. This means that it is impossible to pinpoint the beginning of the development of a plan: either with analysis or with goal setting. To set a goal, you need the results of the analysis, and to conduct the analysis, you need a clear goal. Therefore, the development of a strategy requires passing through this vicious circle for its effective use.

The principle of complexity. General analysis and accounting of information makes it possible to respond in a timely manner to changes in the external or internal environment. To develop an effective strategy, many factors must be taken into account. To a greater extent, it is necessary to study the factors of the external environment, but you should not forget about the enterprise itself. It is necessary to take into account all the problem areas of the enterprise, to know the position of internal resources and the possibility of implementing the strategy. You need to be aware that in the early stages of implementing a strategic plan, a company may not be able to cope with such a large amount of information. In this case, you need to try to cut off everything unnecessary and aim only at priority factors.

The principle of continuous monitoring of development trends. In this case, it means scanning and collecting external information to predict and assess the company's significance in the market. Scanning is carried out in three main areas:

1. Economic (analysis and assessment of the dynamics of external factors, economic situation and competition);

2. Technical (analysis and evaluation of changes in technical competition, introduction of new products and non-traditional use of existing technologies);

3. Political (assessment of the political situation, stability, risks of political investments in a certain region and government regulation of the economy).

The principle of selectivity. The selectivity of the development of the plan is associated with the delimitation of economic zones - individual market segments. The criteria for selecting business zones can be different, and are determined by the global goals of the enterprise.

The principle of strategic competition. Strategic competition has a strong impact on a company's performance.

Strategic competition is based on:

• competitive interaction;

• a dynamic system that includes the interaction of competitors, customers, employees and other resources;

• the ability to assume the consequences of interference in the system and the forecast of new models of dynamic equilibrium;

• availability of free resources;

• prediction of risks and the percentage of return on the use of resources.

Thus, it is possible to compile a table in which all the principles underlying the process of financial strategic planning can be correlated. This will allow a more compact and accessible consideration of the principles of planning. Table 3.2.1 is presented on the next page.

**Table 3.2.1** - Principles of financial strategic planning

|  |  |
| --- | --- |
| Principles of financial strategic planning | Content |
| 1. The principle of purposefulness; | A goal is formed, the need for planning is justified. |
| 2. The principle of perspective; | Formation of a long-term unified plan. |
| 3. The principle of priority; | It is important to set the right priorities and stick to them without being distracted by unnecessary goals. |
| 4. The principle of realizability; | An effective strategy must be flexible and achievable. |
| 5. The principle of phasing; | A phased implementation of the plan is necessary so as not to overload the company. |
| 6. The principle of iteration; | Cyclical approach to strategy development. |
| 7. The principle of complexity; | Analysis ensures timely response to environmental changes |
| 8. The principle of continuous monitoring (scanning) of development trends; | Gathering information allows you to make a quick assessment of changes and forecast. |
| 9. The principle of selectivity; | Allocation of strategic zones of management determined by the purpose. |
| 10. The principle of strategic competition; | Competition is important in the market, it affects performance, price, quality. This principle involves certain risks. |

**3.3 Developing** a financial strategy

The development of a financial strategy involves, together with the development of the goals of the organization, the development of a clear plan of action to achieve these goals. Regular monitoring of the achievement of strategic goals is necessary. Control over the implementation of the strategy involves the division into specific strategic tasks that need to be solved in a certain period. Financial goals can be divided into groups that form the financial policy. A clear financial strategy makes the company manageable and transparent to the owners.

The process of developing and implementing a financial strategy can be divided into the following stages:

Determination of the general period for the formation of a financial strategy

Research of external financial environment factors

Assessment of the strengths and weaknesses of the financial activities of the enterprise

Comprehensive assessment of the strategic financial position of the enterprise

Formation of strategic standards of financial activity

Development of target strategic standards for financial activities

Making major strategic decisions

Evaluation of the developed strategy

Ensuring the implementation of the financial strategy

Organization of control over the implementation of the financial strategy

**Figure 3.3.1** - The main stages of the process of developing and implementing a financial strategy

The development of the financial strategy of the enterprise is based on the principles of the management paradigm - the strategic management system. A number of basic principles that ensure the preparation and adoption of strategic financial decisions in the process of developing an enterprise strategy include the factors shown in Figure 3.3.2:

Primary focus on the entrepreneurial style of strategic management

Accounting for the basic strategies of the enterprise's operating activities

Consideration of the enterprise as an open system capable of self-organization

Providing the developed financial strategy with the appropriate organizational structure

Identification of dominant areas of strategic financial development

Principles for developing a financial strategy

Orientation to the professional apparatus of financial managers in the process of implementing the strategy

Ensuring the flexibility of the financial strategy

Ensuring alternative financial choices

Ensuring continuous use of the results of the technological process

Accounting for the level of financial risk in the process of making strategic decisions

**Figure 3.3.2.** Basic principles for developing a financial strategy for an enterprise

In order for a financial strategy to be successfully implemented, the first step is to build a clear path to its implementation. From the principles of management, we know that the key to successful work is a clearly defined goal. The objectives of the enterprise must be specific and measurable. They are usually installed for long or short periods of time. The long-term goals of the company are planned for five years or more. Short-term goals are usually presented in the form of a single plan that should be completed within a year. As you know, the main financial goal for any commercial company is to maximize market value while minimizing risk. Such a goal can be defined both in absolute and relative terms. The main goal is achieved if the company has enough financial resources, an optimal level of return on equity and a balanced structure of equity and debt capital. The main financial goal (value addition) is broken down into financial sub-goals, for example:

• Profit (economic value added);

• Amount of own capital;

• Return on equity;

• Structure of assets;

• Financial risks;

Each goal should be clearly formulated and expressed in specific indicators, for example:

• Profitability of sales;

• Financial leverage (ratio of own and borrowed capital);

• Level of solvency;

• Level of liquidity;

Once the company's mission and goals have been established, the diagnostic phase of the strategic planning process can begin. The first step is to study the position of the external environment. Environmental analysis is the process by which strategic planners evaluate factors external to the organization in order to identify opportunities and threats for the firm. The evaluation takes place according to the following parameters:

1) changes that affect different aspects of the current strategy;

2) factors posing a threat to the current strategy of the firm;

3) factors that determine new opportunities to achieve the goals of the enterprise.

To assess these threats and opportunities, three questions need to be answered:

1. What is the position of the company?

2. In what position should be in the future?

3. What actions must be taken for the company to take this position?

Threats and opportunities can be divided into seven areas: economics, politics, market, technology, competition, international position and social behavior.

Environmental factors:

Economic factors. The current state of the economy plays a special role for the organization. Many factors in the economic environment must be continuously monitored and evaluated. For example: exchange rates, inflation and deflation rates, income level of the population, changes in tax rates, etc.

Political factors. The company's management must follow the regulations of local municipal, regional authorities and the federal government, the attitude of politicians to monopoly; loans from the federal government and regions to finance long-term programs, restrictions on hiring labor and the possibility of obtaining loans; and behind tariff and trade agreements directed against other countries or concluded with other countries.

Market factors. Changes in the market external environment are an area of constant attention of organizations. Under constant analysis should be numerous factors on which the success or failure of the company directly depends. These factors include: demographic conditions, life cycles of various products or services, ease/difficulty of market entry, income distribution of the population and the level of competition in the industry. In general, the analysis of various market factors allows management to refine its strategies and strengthen the position of the firm in relation to to competitors.

Technological factors. Severe changes in the technological environment that a company has not kept up to date can put it in a hopeless, losing competitive position. Analysis of the technological environment must take into account changes in production technology, the use of computers in the design and production of goods and services, and the success of modern communications. Few organizations succumb to the impact of scientific and technological progress quickly, but change can come suddenly. For example, in some countries paper bag firms seemed to be in a relatively stable position. But with the development of technological progress, production technology has changed and these companies are in a critical situation.

international factors. Most large firms and thousands of small firms operate in the international market, so in the current political situation, firms should especially pay attention to this factor. The management of companies today must continuously monitor and evaluate changes in this vast environment. As a result of the activities of some international organizations, changes in exchange rates, political decisions in countries acting as investment objects or markets, threats may arise, as well as opportunities for development.

Competition factors. No organization can afford to ignore the actual and potential reactions of its competitors. It is necessary to anticipate the actions of competitors.

Competitor analysis should include the following elements:

1) analysis of the future goals of competitors;

2) assessment of the current strategy of competitors;

3) an overview of the assumptions regarding competitors and the industry in which the enterprises operate;

4) in-depth study of the strengths and weaknesses of competitors.

Social factors. These factors describe the changing expectations, attitudes and preferences of society. Important, at the moment, factors of society include the prevailing feelings in society in relation to entrepreneurship, the role of national minorities in society and the movement to protect the interests of consumers. It is often social factors that create the biggest problems for an organization. List of external dangers and opportunities.

Assessment of the strengths and weaknesses of the enterprise, which determine the characteristics of its financial activities. In the process of assessing this factor, it is determined whether the company has the potential to take advantage of emerging investment opportunities, as well as to identify which internal characteristics of it weaken the financial performance. To determine the internal problems of the implementation of this activity, the method of management survey of the enterprise is used, based on the study of various functional areas of the enterprise that ensure the development of financial activities. To develop a financial strategy, it is recommended to include the following functional areas in the management survey: marketing opportunities for expanding volumes, diversifying operating and financial activities; financial opportunities for the formation of investment resources; number, professional and qualification structure of the personnel providing development and implementation of its financial strategy; the information base available at the enterprise, providing the preparation of alternative strategic financial decisions; state of the organizational structure of management and organizational culture of the enterprise.

Upon completion of the assessment of external and internal factors, you can begin to develop and implement a financial strategy, which is carried out in the following stages:

Determination of the general period for the formation of a financial strategy.

Research of external financial environment factors

Assessment of the strengths and weaknesses of the enterprise, which determine the features of its financial activities

Comprehensive assessment of the strategic financial position of the enterprise

Formation of strategic goals of the financial activity of the enterprise

Development of target strategic standards for financial activities

Making major strategic financial decisions

Evaluation of the developed financial strategy

Ensuring the implementation of the financial strategy

Organization of control over the implementation of the financial strategy

**Figure 3.3.3.** Main stages of development and implementation

financial strategy of the enterprise

1. Determination of the general period for the formation of a financial strategy. This period depends on a number of conditions.

The most important condition for its determination is the duration of the period adopted for the formation of the corporate development strategy of the company. The financial strategy, as a rule, is subordinate to it and cannot go beyond this period (with the exception of a short period of formation of the financial strategy).

The main criterion for determining the period for developing a company's financial strategy is the predictability of the development of the economy as a whole and the conjuncture of those segments of the financial market with which the future financial activity of the enterprise is associated - in the current unstable and unpredictable development of the country's economy, this period cannot be too long and, on average, should determined within 3-5 years.

The conditions for determining the period for the formation of a financial strategy are also the industry affiliation of the enterprise, its size and stage of the life cycle.

2. Research of factors of the external financial environment. The study of these factors predetermines the study of the economic and legal conditions of the financial activity of the enterprise and their possible changes in the coming period. In addition, at the second stage of developing a financial strategy, the financial market situation and its determining factors are analyzed, and a forecast of the situation is developed in the context of individual segments of this market related to the upcoming financial activities of the enterprise.

3. Assessment of the strengths and weaknesses of the enterprise, which determine the features of its financial activities. This assessment allows you to determine whether the company has sufficient potential to take advantage of emerging investment opportunities. In addition, the analysis of strengths and weaknesses allows you to identify what internal characteristics reduce the effectiveness of financial activities.

In the process of diagnosing internal problems, it is recommended to use the method of management survey of the enterprise, which is based on the study of various functional areas of the enterprise that develop financial activities. Using a management survey, in the process of developing a strategy, it is necessary to include the following functional areas: marketing opportunities for expanding the volume of operating and financial activities; the possibility of forming investment resources; the number, highly qualified and competent staff that is able to provide strategy development and control; the necessary information base that can provide the development of alternative strategic financial solutions; state of the organizational structure of management and organizational culture of the enterprise.

4. A comprehensive assessment of the strategic financial position of the enterprise. In the process of such an assessment, a clear idea should be obtained about the main parameters that characterize the possibilities and limitations of the development of the financial activity of the enterprise: what is the level of strategic thinking of the owners, managers and financial managers of the enterprise; what is the level of knowledge of financial managers (their informational awareness) about the state and future dynamics of the most important elements of the external environment; what is the effectiveness of the systems of financial analysis, planning and control operating at the enterprise; to what extent they are focused on solving strategic problems, etc.

5. Formation of the strategic goals of the financial activity of the enterprise. As a rule, the main goal of a commercial company is to increase the level of wealth of the owners and maximize its market value. Together with this goal, the main goal of the company requires a certain specification, taking into account the tasks and features of the upcoming financial development of the enterprise. The system of strategy goals should ensure the choice of the most effective areas of financial activity; formation of a sufficient amount of financial resources and optimization of their composition; acceptability of the level of financial risks in the process of implementation of the forthcoming economic activity, etc.

6. Development of target strategic standards for financial activities. The system of strategic financial goals formed at the previous stage should be specified with the help of certain target strategic standards. The development of these target strategic standards of financial activity serves as the basis for making key management decisions and ensuring control over the implementation of the financial strategy.

7. Making major strategic financial decisions. Based on the goals and strategic standards of financial activity, at this stage the main strategies for the financial development of the company are determined in the context of individual dominant areas, financial policy for certain aspects of its financial activity, as well as a portfolio of alternatives of strategic approaches to the implementation of the intended goals is formed and their evaluation and evaluation are carried out. selection. This allows you to create a comprehensive program of strategic financial development of the enterprise.

8. Evaluation of the developed financial strategy. The assessment is carried out according to a system of special economic and non-economic criteria established by the company. According to the results of the assessment, the necessary adjustments are made to the developed financial strategy, after which it is accepted for implementation.

9. Ensuring the implementation of the financial strategy. In the process of implementing the financial strategy, along with pre-planned strategic measures, new management decisions are prepared and implemented due to unforeseen changes in the factors of the external financial environment.

10. Organization of control over the implementation of the financial strategy. Control is carried out on the basis of strategic financial controlling, which reflects the plan for the implementation of the main strategic target standards for the company's financial activities.

The proposed sequence of the process of developing a financial strategy can be changed or detailed, taking into account the specifics of the company's activities.

Next, consider the main characteristics of strategic decisions. There are nine such characteristics.

1. Strategic decisions reflect the management's view of what the company should do and look like.

2. Strategic decisions have an impact in ensuring interaction with the external environment. Organizations need to constantly adapt to the changing environment of the macro environment.

3. Strategic decisions make use of the organization's own resources and help ensure that there is an accurate match between business activity and available resources.

4. Strategic decisions involve imagining a big change in how the organization works.

5. Company decisions involve varying degrees of uncertainty and are highly complex. They imply what the company should do in the future, how to adjust to unforeseen events.

6. Require a comprehensive approach to managing the organization. Successful strategic decisions involve managers working outside their functional areas, as well as consultation with other managers who may have different views on the future of the organization.

7. Have a long range sight. They imply long-term perspectives and have long-term value.

8. Strategic decisions are involved in the assessments and expectations of key company members within the organization. In many textbooks, the authors believe that the strategy of the enterprise is a reflection of the attitudes and opinions of influential internal participants in the company.

9. Have an impact on resources and operations. Strategic decisions affect an organization's resource base and trigger waves of lower-level organizational decisions.

The process of monitoring the development and execution of the strategy must be given great attention. Strategic decision making is not just about proposing, evaluating, and selecting options. This process is implemented in an unstable external environment, which affects the appearance of a range of certain restrictions and creates difficulties in planning, increasing the danger of risk. Difficulty in making strategic decisions may arise:

• For many companies, the busy nature of the external environment quickly destroys corporate plans, except when they are formulated in the most general terms;

• The information required to perform a comprehensive analysis of the internal and external environment, or to conduct an exhaustive study of other policy options, can never be obtained in full and of adequate quality.

• Policy makers are able to capture little more than a very limited and simplified set of interrelated variables. In fact, they consciously simplify the complexity of the problem, using, for example, dividing it into separate manageable parts and then considering them sequentially;

• Systematic formalized planning procedures can prevent the emergence of radical "dissident" but potentially fruitful ideas;

• Often, when specialists draw up a corporate plan, the executors of this plan express disagreement with respect to decisions in the adoption of which they did not participate. In addition, employees of the planning departments are often limited in access to important information held by ordinary managers.

• Problems arise systematically when a new corporate planning process is introduced. If several generic management practices are actively advocated (e.g., management by objectives, quality circles, management by variance), then the preparation of a new planning system is likely to be given less attention than the development of the organization and the development of management methods.

# The above aspects are the basis for explaining the fact that even in fairly large organizations often there are no specific formal strategic planning procedures and structures that are responsible for this process. Sometimes large corporations themselves determine the boundaries of strategic planning, believing that it is inappropriate to extend it to all areas of activity, from the point of view of saving management resources. For example, the McDonald's Corporation, in its Marketing Planning Handbook, states that the amount of formal planning is determined by the degree of market diversification and the size of the organization. Small organizations that work with one product use less formal planning methods, and large organizations that expand their market use more. Numerous non-profit, charitable, municipal and other similar organizations either do not need or do not have the practice of formal strategic planning.

# But this fact does not mean that they do not consider strategies for their own development and do not develop ways to implement them.

**Control questions**

1. The essence and main directions of the financial policy of business entities.

3. What is the essence of the theory and relevance of dividends?

4. What is the essence of the dividend materiality theory?

5. What is the essence of the theory of tax differentiation?

6. Describe the main stages of the company's dividend policy.

7. Factors affecting the company's dividend policy.

8. Forms and procedures for paying dividends.

9. What is the relationship between the dividend policy and the price of the company's shares?

10. Pricing policy of the enterprise, its essence and main directions.

11. Goals and objectives of pricing policy.

13. Features of the formation of pricing strategies of the enterprise.

14. Analysis of the effectiveness of the credit policy of the enterprise.

15. Indicators of the effectiveness of the credit policy of the enterprise.

16. The effect of financial leverage in credit policy.

17. Soft and hard credit policy.

18. What are the features of the monetary asset management policy?

19. Tax policy of the enterprise, its goals and objectives.

20. What are the features of the tax policy of the enterprise?

21. Ways to optimize the tax burden (taxation conditions) of an enterprise

**Test**

@1. Strategic planning is:

$A) A set of measures aimed at solving the primary goals and objectives of the company

+ $B) The process of developing a firm's strategy, in which a development plan is concretized for a long period with a detailed description of the decisions and actions necessary to achieve the goals of the plan

$C) The process of creating tasks for each member of the firm's workforce

@2 Types of corporate diversification strategy:

+ $A) Bound and unbound

$C) General and specific

$D) Concrete and abstract

@3 The highest level of strategic management is:

+ $A) Corporate

$B) Business

$C) Public

@4. List three elements that make up the strategic management process:

$A) Strategic planning, analysis of the external environment, formation of goals and objectives of the company

$B) Analysis of the external environment, the formation of goals and objectives of the company, the implementation of the strategy

+ $D) Strategic planning, strategy implementation, control and regulation

@5. The future of the firm, predicted by extrapolation of historical development trends, is:

$A) Medium term planning

+ $B) Long term planning

$C) Forecasting

@6. What is the most common mistake when implementing a new strategy?

$A) Required resources are missing

$B) It takes a long time to adjust to new market conditions

+ $C) The new strategy is automatically superimposed on the old management structure

@7 Test. What does it mean to estimate the cost of strategic programs using the elemental method?

$A) Allocation of cost elements for each of the activities included in the program

+ $B) Costing for each of the activities included in the program

$C) Benchmarking and upscaling based on previous similar projects

@8. The process of a comprehensive analysis of the internal resources and capabilities of the enterprise, aimed at assessing the current state of the business, its strengths and weaknesses, identifying strategic problems is:

+ $A) SWOT analysis

$B) STEP analysis

$C) Management analysis

@9. Which of the strategies is most appropriate for market-leading firms in a particular industry?

$A) Distinctive Image Strategy

$B) Specialization strategy

+ $C) Active defense strategy

@10 What does PEST parsing imply?

+ $A) Analysis of the political, economic, social and technological aspects of the external environment that can affect the activities of the firm

$B) Grouping all the factors of the internal environment and studying each of them in the context of the impact on the development of the firm

$C) Studying the Firm's Strongest Competitors

@11. The section of the strategic plan, which deals with the concept of strategic marketing, market analysis, product life cycle, product market segmentation, pricing strategy, classification and analysis of competitors, sales and distribution planning, advertising campaign planning, is:

$A) Strategic production plan

$B) Strategic Human Resources Plan

+ $C) Strategic Marketing Plan

@12. The strategy for managing the company's personnel, production, finances and strategies for all other areas of activity is:

+ $A) Corporate strategy

$B) Functional strategy

$C) Business Strategy

**TOPIC 4. GOVERNMENT DEBT MANAGEMENT OF THE REPUBLIC OF TAJIKISTAN**

**4.1. The essence and main forms of public debt.**

**4.2. Public debt management.**

**4.3. Market of government obligations in industrialized countries.**

**4.1. The essence and main forms of public debt.**

The existence of public debt in a market economy is an objective factor. The state, seeking to use its economic and financial resources with the greatest efficiency, allows a budget deficit, to finance which it attracts additional funds in the domestic or foreign financial markets. These funds are attracted for use in the public sector of the economy and their effective transformation in increasing the revenue side of the budget.

The public debt of the Republic of Tajikistan consists of debt obligations of the Republic of Tajikistan to individuals and legal entities, foreign states, international financial organizations, and other subjects of international law.

The state debt of the Republic of Tajikistan is fully and without any conditions secured by all property owned by the state.

The right to carry out state internal and external borrowing, the structure, procedure for servicing, accounting for registration, its restructuring, granting credit to foreign states and international organizations are determined by the legislation of the Republic of Tajikistan.

**State debt** - this is the total amount, at a certain point, of outstanding loans received by the state to finance the budget deficit, and other purposes specified by law, unpaid interest on servicing these loans, as well as guarantees provided for the obligations of other state structures.

The legislation details the purposes for which you can borrow. Consequently, the state external debt is formed by:

• Loans to finance the state budget (mainly funds borrowed from international financial institutions) and repayment of external public debt;

• loans to maintain the stability of the national currency (replenishment of foreign exchange reserves);

• loans to finance investment and institutional projects of national importance;

• Guarantees to foreign contractors for the fulfillment of contractual obligations in connection with non-commercial risks;

• state guarantees are provided for lending to projects financed by the state budget.

Inefficient use of attracted loans can lead to an increase in the volume of public debt. In many countries, the budget legislation defines a limit on the amount of public debt, the achievement of which signals a danger to the entire area of public finance. The amount of public debt should not exceed the critical limit, which is 60% of the gross domestic product.

**Purpose of government borrowing** consists in attracting the necessary funds for the execution of the budget and the repayment of the public debt.

Funds received on state loans are credited to the state budget and used in the manner of budget execution, including through gratuitous use (budget spending) or provision on a repayable basis to domestic borrowers (final borrowers).

**Limits of internal and external government borrowing,** internal and external public debt and state guarantees are established in the law on the state budget of the Republic of Tajikistan for the corresponding year. Limits are set in national and foreign currencies. The limit is considered to be met if its parameters are maintained in one of the agreed currencies.

The amount of public debt that arises when the state guarantee is converted into public debt is not taken into account when assessing compliance with the established public debt limit.

In the event that the attracted state borrowing is directed to repay the obligations to repay the main part of the state debt, the volume of this borrowing, corresponding to the size of the forthcoming payments, is not taken into account when assessing compliance with the established state borrowing limit.

According to the terms of raising funds, they distinguish between internal and external debt.

**- Domestic public debt** - this is a set of obligations of the state to its citizens (residents), who purchased government securities (domestic government bonds) for cash or provided loans to the state in one form or another.

**-External public debt** - the totality of government debt obligations arising as a result of government borrowing in the foreign market.

The Ministry of Finance of the Republic of Tajikistan presents the annual analytical "Report on the state of the state debt of Tajikistan". Thus, in 2013, the external public debt of the Republic of Tajikistan as of January 1, 2013 amounted to $2 billion 188.5 million, which is 25.7% of GDP.

According to the currency of attraction, the public debt is divided into debt in national and foreign currencies.

**- Public debt in foreign currency** arises as a result of the direct borrowing of funds from the governments of foreign countries, international financial and credit organizations, foreign banks, as well as the placement of government debt in international capital markets. The total amount of external debt is estimated in US dollars.

**- Domestic debt** predominantly valued in national currency. To borrow funds, securities valued in somoni are issued and placed on the domestic stock market.

According to the payment period, public debt is divided into - capital, which includes the entire set of debt obligations of the state on a certain date, and current, which form payments on obligations that the borrower must repay in the reporting (current) period.

The presence of public debt requires measures to service it, which includes the process of repayment, payment of interest payments and other payments stipulated by the terms of the obligation. Debt repayment is the payment to the creditor of the main part of the debt. It can occur both at the expense of budget revenues and as a result of new borrowings (debt refinancing).

In addition to the debt of the general government at various levels, in order to control the indicators of debt, which is likely to become public, the so-called public debt is taken into account in international world practice.

The stock of general government debt has economically justified limits, above which the negative impacts outweigh the positive impacts from further debt accumulation. It has been established that for developed countries such a limit is the amount of public debt, which does not exceed 60% of GDP, and for countries that do not belong to them - 30-35% of GDP. The criterion of its relation to export earnings is also used - 22%. The principles, mechanisms and measures in the field of public debt management to prevent the occurrence of negative phenomena associated with an excessive level of debt burden form the debt policy of the country.

**4.2. Public debt management**

The most priority task of implementing the financial policy of the state is to provide an effective mechanism for managing public debt. Its goal is to get the best result from the state's investment of funds.

**Public debt management** - a set of state measures to determine the conditions for raising funds, their placement and return, ensuring the necessary solvency of the state. Such government measures include preparation for the issuance and placement of government securities, regulation of the government securities market, efficient use of borrowed funds for a legally defined purpose, servicing and repayment of public debt.

**Public debt management policy** is based on the following principles:

- unconditional fulfillment of obligations undertaken by the state to creditors;

- optimal structure of government debt obligations;

- minimum possible risks on government debt securities in case of fluctuations in the world market indicators;

- reducing the cost of servicing public debt in the following borrowings;

- replacement of short-term borrowings with long-term ones, ensuring uniformity and avoiding significant peak debt payments;

- openness and transparency of information on the attraction, use and repayment of borrowed funds

Public debt management should take into account the policy of public borrowing (debt policy).

**Debt policy** - this is the direction of the state's activity, which is implemented through a certain set of measures and is aimed at the rational and effective mobilization, distribution, use and return of borrowed financial resources by the state.

It, in turn, accumulates the development and implementation of such interrelated and interdependent elements as:

- development of a strategy for state external and internal borrowing;

- setting a reasonable limit on the volume of public debt in general, as well as internal and external, in particular;

- determination of the duration of the debt cycle on the basis of rationalization of the management of the dynamics of the total, internal and external public debt;

- selection of the most appropriate forms of financing domestic and external government borrowings (government, bank or commercial loans, government securities), the degree of concentration of debt obligations for individual creditors (international financial organizations, governments of foreign countries, foreign private creditors, domestic legal and individuals), the level of diversification of borrowings by currency composition (special drawing rights (SDR), US dollar, euro, etc.), taking into account the effective distribution of investment risks associated with this;

- consideration of the issue of the possibility (or impossibility) of capitalization of a part of the state debt (with a corresponding proposal to creditors to repay a certain part of the debt with state property);

- measures to reduce the cost of government borrowing and reduce the risk of servicing them (when determining the cost of servicing loans, one should take into account the assessment of a possible decrease in the potential level and the deterioration of the conditions of one of the main characteristics for the formation of the state's debt policy);

- the ratio of the amount of public debt to GDP (critical level: 60 - 100%).

The ratio of planned debt service payments to exports is widely used to characterize the liquid position of the country's economy. This indicator gives an estimate of solvency in the short term (critical level: 20-25%).

To assess long-term solvency, the ratio of the present value of debt to exports is often used (critical level: 20-25%).

To measure the burden on the budget, the indicator of the ratio of planned debt service payments to the amount of budget revenues is used, the critical level for this is the range of 25-30.

Countries with strong export growth can maintain relatively high levels of debt in terms of exports and output. However, these countries become vulnerable in the event of an increase in the interest rates of external borrowing due to changes in economic conditions in the creditor countries or due to decisions of creditors that they are unwilling for any reason to maintain the achieved level of credit in the future.

To ensure the solvency of the state in the process of public debt management, it is possible to use various methods of adjusting the debt policy. The most common among them are the refinancing and restructuring of public debt.

**Refinancing of the public debt** - this is the repayment of the principal amount of the debt and interest on it at the expense of funds received from the placement of new loans. Debt refinancing can only be effective if the borrowing country has a high credit reputation in the global financial markets.

**Public debt restructuring** - it is a deferral of payment of part or all of the debt by the borrowing country. With this option, it is also possible to exchange debt amounts for shares or special bonds to invest them in the national economy.

**The methods of public debt management are:**

**1. Debt conversion,** is defined as a change in the rate of return on a loan, at which the creditor state can reduce the amount of interest payable on the loan. In practice, the following options for converting external debt are used:

-Exchange type\"debt for debt \", in which the borrower country exchanges its debts to other states for the debts of other states to it;

-exchange type\"debt for export \", in which debts are covered by the export of finished products;

-exchange type\"debt for property \", in which debt obligations are covered by shares of enterprises, land, real estate, and other capital facilities;

-Exchange type\"debt for national currency \" in which the borrowing state practically receives voluntary assistance for the development of its own economy. The funds received as a result of such a conversion are used to finance educational and medical state programs.

**2. Consolidation of public debt -** it is a method that is implemented as an extension of the terms of the loans issued by the debtor government.

**3. Unification of loans,** is defined as the exchange of several previously issued government debt obligations for one new obligation, that is, the combination of several government loans into one.

**4. Postponement of repayment of loans** defined as the extension of the maturity of debt obligations of the borrowing government.

**5. Cancellation of debt obligations** state applied by creditors in the event of financial insolvency of the state to repay the loans received. Inability, in turn, can be caused by both economic and political crises of the debtor.

In the event that the debtor state accumulates a significant amount of external credit obligations, in practice it is possible to use the following options for solving its debt problems:

- in case of achieving a surplus of the state budget of the debtor country, it can gradually pay off the principal amount of the debt, as well as the accrued interest. This option is possible only under the condition of a healthy economy and a stable positive balance of the state;

- repayment of public debt, possibly also by attracting new foreign loans. In this case, the amount of external debts of the state will gradually accumulate, which ultimately will lead to its absolute insolvency. The lender under such conditions may resort to full or partial write-off of borrowed amounts;

- if the amount of new foreign loans of the debtor does not exceed the amount paid to repay the loan, then the borrowing country can pay interest on loans on time, and the volume of external debt is frozen for a long time.

**4.3. Market of government obligations in industrial**

**developed countries**

Public debt financing in developed countries is carried out almost exclusively by market methods using various financial instruments. Such instruments are government securities, which are issued in the form of term debt obligations.

Investor demand for any securities, including government securities, is formed on the basis of the following factors:

***- profitability -*** the ability to generate income (through interest, dividends or growth in market value);

***- reliability -*** the probability of incurring losses (the risk of non-return of invested funds);

***- liquidity -*** the opportunity for the holder to receive funds as soon as possible.

Government securities issued by industrialized countries are considered super-reliable, with medium and low yields. They are attractive to conservative investors who are willing to be content with a relatively small but guaranteed income.

There are also obligations of other issuers, which, by issuing less reliable securities, offer higher yields as a “risk payment”.

The consequence of this was the diversification of the loan portfolio of investors that has developed in world practice between government obligations with a low yield, but preferred due to liquidity and reliability, and liabilities of other issuers (including the real sector of the economy), offering a high yield, however, somewhat losing to government securities. in terms of reliability and liquidity. Thus, in world practice, government securities are, in principle, the safest type of investment, and in the presence of a developed financial market, they are very highly liquid assets. That is why such securities are the least profitable.

In all countries with a market economy, there are different systems for assessing the reliability of securities. For example, for the US, the norm is a difference of about 4% per annum between the yield on government and corporate securities. If this indicator decreases, then there is an outflow of capital from the corporate sector in favor of government bonds, the market prices for corporate papers decrease and, as a result, their profitability and attractiveness for investors increases.

In world practice, the following forms of payment of income on government securities are most common:

• establishment of a fixed percentage of the face value;

• sale of debt obligations at a discount;

• indexation of the nominal value of securities;

• carrying out winning loans.

In addition, the government may establish tax incentives for income received from government securities. Government securities can be divided into - market and non-market.

***Marketable*** securities are securities that are freely tradable and resold after their initial placement on the secondary market. In industrialized countries, their share is up to 70% of all government debt.

***Non-marketable*** securities are stock instruments that do not have a secondary stock market, i.e. they are bought by the investor from the state, and can only be sold to him. Such securities are not listed on the stock exchange. The main goal pursued by the issuer by issuing non-marketable papers is to attract small savings of the population as credit resources.

In addition, through the issuance of these securities, the governments of industrialized countries influence the deposit policy of commercial banks in relation to the population, since the purchase of non-marketable government securities by the population reduces the resources that can potentially be placed on deposits of private lending institutions.

***The primary market*** for government securities is the market where the issuer (the relevant authorized state body) places its securities among authorized dealers (market makers).

***The secondary market for*** government securities is the market in which these securities are circulated between the moment of their issue and the date of redemption.

The most developed stock market in the world is the US stock market. The main issuer of debt in the United States is the Treasury, which emigrates both marketable and non-marketable securities. U.S. marketable securities can be divided into three categories:

• treasury bills;

• treasury notes;

• treasury bills.

These papers exist in electronic form in the form of account entries, which made it possible to significantly reduce the costs associated with the preparation of forms and accounting, avoid falsification and simplify the circulation of bonds on the market as much as possible. The US Treasury issues securities that are attractive to a wide range of investors: corporations, funds, banks, and individuals. The issue of such securities allows the state to attract temporarily free funds from the widest range of investors for its own needs. At the same time, business entities get the opportunity to profitably allocate free capital. Several types of non-marketable securities are also issued in the USA:

• savings bonds;

• bonds that issue external debt;

• bonds held by government accounts;

• securities to be placed with state and local governments.

Savings bonds are the best known among them. Bonds of the EE series and the HH series are currently being issued.

Germany issues the following types of government marketable securities: German bonds, federal bonds, debt certificates, federal cash bonds.

The most widely distributed bonds of Germany. These are long-term securities with a maturity of 5 to 30 years, and the income on these bonds is not taxed, which makes them especially attractive to investors.

German non-marketable securities are savings bonds of type "A" and "B", and treasury financial obligations of type "1" and "2". The difference between savings bonds of type "A" and "B" is in the circulation period (respectively, 6 and 7 years) and the term of interest payment (for bonds of type "A" interest is accrued and paid annually, and for bonds of type "B" interest is paid upon redemption). Savings bonds, both type "A" and type "B" are aimed mainly at small investors. The investor has the right to sell the bond at a nominal price at any time and receive the interest due to him. Only individuals and non-profit organizations are eligible to purchase savings bonds in Germany.

Treasury bills are a discount instrument with maturities of one year (type 1 treasury bills) and two years (type 2 treasury bills). Like savings bonds, Treasury bonds are targeted at the small private investor, although they can be purchased by any domestic investor other than lending institutions.

In general, when analyzing the circulation of government securities in industrialized countries, one can pay attention to the following features:

1. The yield on government securities issued by industrialized countries is relatively low;

2. In addition to government securities, corporate securities are actively circulating on the stock market, into which capital flows when the attractiveness of government stock instruments decreases. Accordingly, the yield on government securities increases, and their attractiveness for investors increases. Consequently, the corporate securities market is a "balancer" of state stock values;

3. A significant role is assigned to small investors, primarily to their own population.

Government borrowing has become a common practice in the financial system of industrialized countries. With a sound financial policy and an efficient economy, covering the budget deficit through loans does not entail significant economic problems, since the Republic of Tajikistan can increase its revenues through tax revenues, and use the funds received to pay off public debts, can refinance the debt, or resort to emission.

The existence of a significant public debt in practice leads to three main problems:

• increase in interest expenses on debt service;

• an increase in interest rates in the loan capital market, leading to a decrease in private investment;

• increasing the state's financial dependence on the global capital market and the behavior of investors, especially non-residents, on it.

The negative effects of the debt burden can thus constrain the growth of the national economy.

**Control questions**

1. What is meant by the state budget deficit and public debt, how are they related?

2. What is the nature of the annually balanced budget?

3. What macroeconomic objectives does a cyclically balanced budget solve?

4. Expand the content of the concept of functional finance.

5. What are the main causes of public debt?

6. What is the difference between public debt held by residents of the country and external public debt?

7. What are the main problems generated by excessive public debt.

8. What are the sizes and causes of public debt in Russia? What social and economic problems does it generate?

9. What is meant by the financial system of the state? What is the role of the state budget in it?

10. Name the main types of revenues and expenditures of the state budget at various levels of economic management in Russia.

11. Which taxes are direct and which are indirect? From what point of view is this division made?

**Test**

@1. Ways to repay the public debt:

$A) making loan principal repayments $B) due dates;

$C) refinancing loans;

$D) cancellation (complete refusal to pay) the debt.

+ $E) all answers are correct.

@2. The sources of repayment and servicing of public debt include:

$A) state budget funds;

$B) financial resources of state trust funds;

$C) funds of the country's central bank;

+ $D) all answers are correct.

@3. Public debt is:

+$A) the totality of the government's payment obligations to be met on the basis of received or guaranteed assets, goods and services received in previous periods;

$B) attraction of funds by government authorities in order to finance budget expenditures;

$C) attracting deposits to a state bank;

$D) there is no correct answer.

@4. Capital public debt includes:

$A) the country's total debt in the current year;

$B) the country's debt obligations placed on the international stock market;

+ $C) the total amount of debt and interest payments that must be paid on the obligations of the state.

$D) all answers are correct.

@5. External public debt includes the following types of debt:

$A) loans raised from transactions with government debt securities in the domestic market;

$B) loans received by the government from the central bank;

+ $C) liabilities on loans provided by international organizations and foreign commercial banks;

$D) all answers are correct.

@6. Refinancing of public debt is:

+ $A) repayment of debt using funds raised by issuing and placing new debt securities or restructuring loans;

$B)) debt cancellation;

$C) writing off part of the debt by creditors;

$D) there is no correct answer.

@7. A default is declared if:

$A) the government has enough financial reserves to pay off only part of the debt;

+ $B) government authorities are unable to raise the necessary funds to service loans, and creditors do not agree to refinance the debt;

$C) foreign lenders agree only to the restructuring of the loan;

$D) there is no correct answer.

@8. Indicators for the placement and servicing of public debt include:

$A) the amount of capital debt was;

$B) the amount of current debt;

$C) the amount of the debt has been repaid;

+ $C) all answers are correct.

@9. External public debt is classified:

$A) by types of creditors (banking, corporate);

$B) according to the form of presentation (currency, commodity);

$C) by purpose of use (investment, non-investment);

$D) according to the terms of provision (preferential, high-interest, compensatory);

+ $E) all answers are correct.

@10. Public debt management covers activities related to:

$A) the issuance and placement of government debt;

$B) service, repayment and refinancing of the public debt;

$C) regulation of the securities market;

+ $D) all answers are correct.

@11. The methods of public debt management include:

$A) consolidation;

$B) consolidation;

$C) conversion;

+ $D) all answers are correct.

@12. Public debt can act and be fixed in the following forms:

+ $A) government securities;

$B) instructions;

$C) in budget expenditures;

$D) in budget revenues.

@13. Treasury bonds are of the following types:

$A) international, national;

$B) credit, savings;

+ $C) short, medium and long term;

$D) there is no correct answer.

@14. Who is servicing the public debt?

$A) National Bank of Ukraine;

$B) State Treasury of Ukraine;

$C) commercial banks of the country;

+ $D) Ministry of Finance of Tajikistan.

**TOPIC 5. MACROECONOMIC EQUILIBRIUM AND STATE REGULATION OF THE ECONOMY**

**5.1. The role and significance of economic equilibrium.**

**5.2. Theories of macroeconomic equilibrium**

**5.3. State regulation of the economy**

**5.1. The role and significance of economic equilibrium.**

Macroeconomic balance is the central problem of social reproduction. This is a key category of economic theory, characterized by the balance of economic processes. It is not for nothing that economists have been interested in the problems of the “exit” of the economic system to equilibrium for several centuries: let us recall the “Economic Table” by Francois Quesnay (XVIII century), the reproduction schemes of Karl Marx (XIX century), the theory of “costs - output” by Wassily Leontiev (XX century. ), etc. Equilibrium reflects the state of society that suits all its members.

However, such a situation is possible only under ideal conditions with perfect competition, not disturbed by side effects such as cyclical and structural crises, inflation, unfair competition, etc. All of them bring the economy out of balance. But even under these conditions, the economic system can be brought into dynamic equilibrium. So, in real life, perfect balance is an exceptional, fleeting moment that is rarely achieved. The "normal" state of the economy implies the possibility of deviations in individual markets from the state of general equilibrium. However, despite the discrepancy between ideal and real equilibrium, equilibrium analysis is widely used, since all economic agents are interested in achieving equilibrium.

Distinguish between partial and general equilibrium.

Partial equilibrium is called equilibrium in a single market for goods, services, factors of production.

General economic equilibrium is such a state of the national economy, in which supply and demand are simultaneously ensured in all markets, and none of the economic agents is interested in changing the volume of their purchases or sales.

The concept of general economic equilibrium was developed by L. Walras. In his interpretation, equilibrium is the state in which the efficient supply and efficient demand for productive services are equalized in the services market, the efficient supply and efficient demand for products are equalized in the product market, and, finally, the selling price is equal to the cost of production, expressed in productive services.

The latest research in the field of general equilibrium makes it possible to make a number of significant additions to the works of Walras. Among them, the following deserve special attention:

- Economic theory does not deal with a stable equilibrium, but with its constant violations, which is figuratively called "balance-disequilibrium".

Three significant conclusions follow from this:

- Firstly, equilibrium should be considered as an abstract model ideal: it has never been and cannot be, but it is necessary to start research from it.

- secondly, equilibrium is a dynamic optimal disequilibrium. This means that it, representing the deviation of prices from cost, results - from costs, which are inherent in a market economy.

- thirdly, equilibrium, like disequilibrium, also plays a negative, destructive role, forcing economic entities to act contrary to their deepest interests, the interests of society as a whole.

The balance of the entire economic system as a whole is called **macroeconomic balance** and manifests itself in the form of proportionality:

a) between the production of products and their consumption;

b) between the resources involved in the turnover and their use;

c) between the supply of goods and their demand;

d) between material and financial flows.

The consistency of all these individual proportions of social reproduction leads to a balanced development of the economic system as a whole. However, each production unit has a certain autonomy. Therefore, proportionality in the national economy makes its way as a trend and implies the possibility of certain deviations from equilibrium, which are interpreted differently in different economic schools.

**5.2. Theories of macroeconomic equilibrium**

The intersection of the curves of aggregate demand and aggregate supply gives a point of general economic equilibrium (point M in Fig. 5.2.1). At the same time, higher prices create incentives to increase aggregate supply (expand production) and at the same time reduce the level of aggregate demand.



Real production volume

Price level

**Rice. 5.2.1. General economic equilibrium.**

In the markets of individual goods, the point of intersection of the curves of aggregate demand and aggregate supply shows the level of equilibrium volume of production and the equilibrium price level corresponding to it, but if in relation to the markets of individual goods the question of how efficiently resources are distributed is relevant, then for the market at the macro level the most important are the following questions:

• How well are resources being used?

• What level of employment of labor resources and utilization of production potential corresponds to the steady-state equilibrium volume of production?

• What should be the role of the state in maintaining macroeconomic balance: what should it stimulate - aggregate demand or aggregate supply?

In resolving these issues, two approaches are divided: classical and Keynesian.

**Classical model of macroeconomic equilibrium**

According to this model, the system operates in accordance with the rules dictated by the market, i.e. the consumer. This approach was first formulated by A. Smith in his famous book "An Inquiry into the Nature and Causes of the Wealth of Nations" (1777). According to A. Smith, the market of private producers should be completely freed from state control. According to the figurative expression of A. Smith, the “invisible hand” of market self-adjustment (demand, supply, competition, price) without any external interference will force the manufacturer to act in the interests of the whole society. Under the "invisible hand" A. Smith understood the spontaneous action of objective economic laws. The slogan of non-intervention of the state in the economy was the expression "Laisser faire": "Let people do their own thing, let things go on their own."

The followers of A. Smith, neoclassical economists, proceed from the fact that the market system ensures the full use of resources in the economy. Moreover, the disproportions that sometimes arise are resolved on the basis of automatic self-regulation of the market. Thanks to him, the economy always reaches the level of production at full employment. To illustrate this point, consider Fig. 5.2.2.



Real GNP

Horizontal (Keynesian) segment

Vertical (classic) segment

Intermediate segment

Price level

**Rice. 5.2.2. Balance options.**

The different approaches of the two economic schools are visible on the aggregate supply curve (AS). The classical point of view, according to which the economy, through self-regulation, comes to the volume of production at which full employment is achieved, corresponds to a vertical segment of the supply curve.

The classical macroeconomic model is based on the idea that a change in aggregate supply generates exactly the same aggregate demand.

This is the so-called Say's law, according to which the supply of goods creates its own demand and, therefore, there is no possibility of a gap between aggregate demand and aggregate supply and there is no reason to fear overproduction: society completely consumes the national income. But then the question arises: what happens if part of the income goes into savings and is not consumed? Classics believe that this is not scary, since what was saved will eventually be spent in the form of investments. And if savings turn out to be excessive, then interest rates will fall, which, in turn, will stimulate the use of savings in the form of investments. Thus, the balance of savings and investment is the main condition for a self-regulating economy in the neoclassical model.

Another credo of the classical model: influence on the equilibrium of the labor market. The logic of reasoning here is as follows: a decrease in prices in commodity markets leads to a decrease in wages or the emergence of unemployment if wages remain the same. In the latter case, the supply of labor will exceed demand, and workers, under the threat of unemployment, will agree to lower wage rates. Rates will be reduced until it is profitable for entrepreneurs to hire everyone who wants to work at a lower salary. In other words, market forces act in the direction of achieving equilibrium in the labor market, which leads to full employment of the labor force.

The next postulate of the classics is the analysis of the influence on the equilibrium of the money supply. They proceed from the fact that at a given level of aggregate supply, an increase in the amount of money in circulation leads to an increase in aggregate demand. Therefore, maintaining equilibrium involves controlling the money supply as the basis for price stability and aggregate demand. From the classical model, an unambiguous conclusion about the role of the state follows: if the market has regulators capable of ensuring the full use of available resources, then state intervention is unnecessary.

**The Keynesian Model of Macroeconomic Equilibrium: The End of the Laisser Faire Era**

After the publication of the work of D. Keynes “The General Theory of Employment, Interest and Money” (1936), it was recognized that if there is not sufficient demand during a crisis, then even the lowest interest rates will not stimulate the required level of investment and thereby increase demand. The Keynesian concept rejected the position of the classical theory, according to which supply creates its own demand.

D. Keynes argued that there is an inverse causal relationship: aggregate demand creates supply. If aggregate demand is insufficient, then the volume of production will not be equal to potential (at full employment). On fig. 13.2 of the Keynesian model corresponds to the horizontal segment of the aggregate supply curve. If the volume of supply or real output is determined by demand, then it can be argued that a decrease in aggregate demand will lead to a decrease in real output.

In this situation, aggregate demand and aggregate supply will be balanced, but at a level far from the potential volume, i.e., with underemployment of resources. This situation can persist for a long time and will not change by itself. Large losses and long-term unemployment can be avoided only through an active macroeconomic policy of the state aimed at stimulating aggregate demand.

Keynes and his followers believed that the state should help bring the economy out of the crisis by pursuing an expansionary financial and monetary policy.

The **Keynesian concept** was the theoretical justification for a new approach to the role of the state in a market economy. In contrast to the idea of the classics about the neutrality of the state, it proves the need for coordinating state intervention.

**5.3. State regulation of the economy**

The state exists in any economic system - market, command, transitional, but its economic functions in each of them are different. Consider the regulatory role of the state in relation to each of these systems.

The problem of state regulation of a market economy is to develop such methods of market regulation that, while maintaining its advantages, would minimize its inherent disadvantages.

What specific market weaknesses can be eliminated and with the help of what specific regulatory measures? Strictly speaking, the whole of macroeconomics is an attempt to find an answer to this question. Let us dwell on some of the methods of economic regulation:

**1. Creation of public goods (public goods).** The market is able to identify and satisfy the demand only for private goods. The creation and implementation of public goods is the task of the state. Public goods are not homogeneous: they act as purely - and partially - public goods. The production of purely public goods (national defense, protection of public order, etc.) is completely entrusted to the state. At the same time, the creation of partially public goods (education, health care, social insurance) can be carried out both by the state and the private sector of the economy. At the same time, the state assumes and guarantees only such a level of consumption of partially public goods that can currently be provided with state budget resources;

**2. Regulation of external (side) effects.** The market mechanism cannot cope with this problem. An externality is an effect that affects firms in the production of goods. It can be both positive and negative. An example of a positive externality: the construction of an irrigation system by one farmer improves the land quality of other farmers without additional investment from the latter. An example of a negative externality: environmental pollution due to the construction of railways. There are different points of view on solving the problem of externalities and the participation of the state in this issue.

Here are two of them, opposite. A. Pigou (English economist, author of the theory of the welfare state) offers a tax way to resolve this issue, which implies the active role of the state. R. Coase (American economist, theorist of the neoclassical school) believes that the regulation of external effects is most beneficial on the basis of private agreements between owners. For most situations with externalities, it is difficult to identify the “guilty” (for example, ozone holes), so the problem of the source of compensation for externalities remains one of the most difficult in economic theory.

**3. Redistribution of income.** The market does not provide social justice. Market regulation is associated with a large differentiation of income. Experience shows that optimal taxation and social insurance payments (pensions, unemployment benefits, etc.) are effective tools for minimizing these costs. Under such a redistributive system, the distribution of disposable income is more even than the distribution of primary income. All three areas of state regulation considered above: the efficient production of collective goods, the justified regulation of externalities, and the fair distribution of income are now recognized by all Western economists, even those who adhere to the “laisser faire” philosophy;

**4. Implementation of antimonopoly policy.** Another important factor forcing the state to resort to adjusting market mechanisms is the imperfection of the real market in comparison with its ideal theoretical model, the imperfection generated by large corporations that monopolize the markets for goods and labor and make prices rigid, inflexible, and inactive downward. The fight against monopoly, the protection of the principles of free competition can only be carried out by the state. To achieve this goal, the state relies on antitrust laws;

**5. Support for small businesses.** In a mixed economy, small business plays a very prominent role: it contributes to maintaining competition and creating jobs. It is a collection of small and medium-sized private enterprises that are not directly included in any monopoly association and play a subordinate role in the economy in relation to the monopolies. The state provides support to small businesses through tax, credit policy, the provision of educational, consulting and other services.

**6. Macroeconomic stabilization -** one of the main regulatory functions of the state. It is aimed at preventing an economic downturn, maintaining the performance of the economy at a certain level, and improving the economy. Macroeconomic stabilization is achieved through fiscal and monetary policy. During economic crises, emergency measures are applied, provided for by the program for stabilizing the economy;

**7. Regulation of foreign economic activity.** Each state seeks to create favorable external conditions for the development of the national economy. Based on specific national interests, the state pursues either a policy of liberalization or protectionism. State regulation of foreign economic activity is carried out with the help of customs fines and non-tariff regulatory measures. However, we should not forget that state intervention in the economy has limits. The boundary of state regulation of the economy is the efficiency of the market economy as a system. Crossing this line can lead to the disappearance of economic incentives that ensure the effective functioning of the market mechanism.

**State in a command economy**

It has unlimited political, administrative and economic power. As a political body, the state belongs to the superstructure of society, but its activities penetrate deeply into economic (basic) relations. As a theoretical justification for the need for a comprehensive state presence in the economy, Soviet economists used the following system of evidence:

- The means of production, which have become the property of the entire people as a result of socialist nationalization, should not be used in anyone's private interests, but to achieve goals that meet the interests of all members of society, or the entire nation. This circumstance requires that the disposal of the people's means of production and the management of their use be carried out from a single central body representing the interests of all working people in an equal measure. Therefore, under socialism, state interests are identical with public, or the interests of the whole people. Insofar as the public (state) means of production play the leading and predominant role in all spheres of the economy, so far as state administration embraces the entire system of social production. The state budget in a command economy has always been deficit-free, since not 10–13%, but almost all (80–90%) of the profits of functioning economic structures were directed to it.

**State in transition economy**

The state is undergoing cardinal changes in the creation of new political, administrative and economic foundations. The difficulties of this period are that the old institutional framework has already been broken, and the new one has not yet been built. This means that those institutions have not been created that never existed under the socialist system:

• private property;

• numerous legal institutions (codes, laws);

• institutions that determine responsibility for the property of others (accounting standards, banking regulation, regulation of the securities market);

• institutions that structure and make predictable the behavior of partners in market relations (contract law), etc.

In their creation the leading role should belong to the state.

**Means of state regulation of the economy**

State regulation of the economy is carried out through a set of measures. In countries with a mixed economy, **administrative, legal and economic (direct and indirect) regulation.**

**Administrative forms include:** licensing, quotas, control over prices, income, exchange rate, discount rate, etc.

**Legal regulation** is carried out on the basis of legislation through a system of establishing norms and rules. The rules of conduct provide for a system of punishments: “In order to ensure such a public good as law-abiding, such a public “anti-good” as punishment must be produced.” The costs of punishment include two elements - the costs of identifying violators and the costs of punishing violators. The latter are the “anti-good”. No punishment fully compensates for the damage, does not restore the "status guoante". However, penalties must be applied to ensure that violations do not occur in the future.

**Economic (direct) regulation** has a variety of forms of irrevocable financing of industries, territories, enterprises in the form of subsidies, benefits, additional payments from special budgetary and extrabudgetary funds of the national, regional and local levels. This includes soft loans and tax breaks.

**To economic (indirect) forms of state regulation** include the levers of monetary, tax, depreciation, currency, customs policy, etc.

**Control questions**

1. The Keynesian concept of macroeconomic equilibrium: the models "total costs-total income" and "savings-investment". ("Keynesian Cross" and the IS model). recessionary and inflationary gaps.

2. Instruments of fiscal policy. Government spending. government spending multiplier. Taxes as an instrument of macroeconomic regulation. tax multiplier.

2. Budget deficit and ways of its financing. Curve Laffer. "Displacement effect". Structural and cyclical deficits.

3. Discretionary and non-discretionary fiscal policy. The role of built-in stabilizers.

4. Public debt: types, causes of formation, consequences, management.

5. Money: functions, liquidity, value. Decree money. Money supply. money aggregates.

6. Quantitative, Keynesian and modern theories of demand for money. Monetarism. Factors that determine the demand for money.

7. Money supply model. Money multiplier. bank multiplier. Money market and its characteristics. money market equilibrium.

8. Banking system. Tasks and functions of the Central Bank. Functions and operations of commercial banks.

9. Credit: sources, functions, forms. The role of specialized financial institutions in a market economy.

10. Macroeconomic equilibrium in the commodity and money markets. Model IS-LM. Relative efficiency of BNP and PrEP in the IS-LM model. Liquidity and investment trap.

11. Economic growth: essence, types, factors, stages, models.

12. Equilibrium in the IS - LM model for an open economy.

**Tests**

@1. Priorities of certain types of economic policy in a floating exchange rate:

+$A) maintaining the stability of the national currency and the competitiveness of the national economy

$B) fiscal policy that has a comparative advantage in regulating both the country's internal and external balances

$C) monetary policy, which has a comparative advantage in regulating internal balance, and fiscal policy in maintaining external balance

$D) a monetary policy that has a comparative advantage in managing the external balance

@2. Among the financial instruments of the state macroeconomic management are:

$A) budgetary regulation

$B) tariff regulation

+$C) the volume and structure of the money supply, the parameters of money circulation

@3. Social groups of people most in need of state support in conditions of rapid inflation:

+$A) persons with fixed nominal incomes

$B) participants in the "shadow" economy

$C) persons whose nominal income growth lags behind price growth

$D) consumer goods entrepreneurs

@4. The real annual increase in GNP or other macroeconomic indicators that are published periodically by the statistical authorities is:

$A) potential growth

+$B) actual growth

$C) medium term growth

$D) long-term growth

@5. The principle of distribution of the tax burden is used in the analysis of taxation:

$A) transnational corporations operating in the territory of the Republic of Tajikistan.

$B) Tajik and foreign legal entities

+$C) separate economic regions within one state

$D) business entities (individuals and legal entities

@6. Specific tools for conducting state economic policy are, first of all, such fiscal levers of influence, fiscal policy instruments, as:

+$A) taxes, government spending, transfers

$B) subsidies, subventions

$C) customs duties, export-import tariffs

@7. Which of the following is not true of so-called public goods, which are outside the reach of the market mechanism because they require too much investment:

$A) market research

$B) basic science

+$C) national defense

$D) communication facilities

@8. Methods of direct state influence on the economy do not include:

$A) government support for programs, orders and contracts

$B) regulatory requirements for quality and certification of technology and products

$C) definition of strategic goals of economic development and their expression in indicative and other plans, targeted programs

+$D) customs regulation of exports and imports, exchange rates and currency exchange conditions

@9. The main target of the socio-economic development of the country:

$A) fighting inflation with monetarist methods

$B) increase in the level of monetary income of the population c) increase in the level of well-being of the ruling class

+$C) increase in the welfare of the people

@9. The public debt is the sum of the previous:

$A) government spending

$B) defense spending

$C) future payments to foreign borrowers

+$D) d) budget deficits

@10. The subsystem of the goals of state regulation of the transitional economy at the macro level does not include:

$A) exit from transformational recession, transition to revival, recovery and economic stabilization

$B) moderate inflation and monetary reform, with stabilizing the national currency and finances

$C) accelerating market transformation

+$D) privatization of small and medium enterprises

@11. Among the instruments of the state's monetary policy, there are no ...:

$A) open market operations

+$B) changes in the tax base

$C) bank refinancing

$D) deposit transactions.

**TOPIC 6. FINANCIAL CONTROL IN THE PUBLIC FINANCIAL MANAGEMENT SYSTEM OF THE REPUBLIC OF TAJIKISTAN**

**6.1. The content and significance of state financial control.**

**6.2. State financial control body in the Republic of Tajikistan.**

**6.1. The content and significance of state financial control.**

**State financial control** - is aimed at ensuring the organization of audits and checks for the receipt and effective use of the state budget, state funds, loans attracted by the Government of the Republic of Tajikistan and under its guarantee, grants, humanitarian aid and state property in the context of the development of market relations and the formation of the private sector.

**The tasks of the state financial control** are:

- organization and implementation of audits and inspections for the execution of the revenue and expenditure parts of the republican and local budgets, state funds in terms of volume, structure and purpose, as well as the efficiency of spending public funds and the use of state property;

- analysis of the validity of income and expenditure items of the draft state budget and state funds;

- control over untimely and full financing of state investment and social programs, targeted use of funds allocated from the republican budget for the elimination of the consequences of natural disasters, as well as the distribution of humanitarian and technical assistance received by the Government of the Republic of Tajikistan;

- control over the acceptance, use and storage of the state fund of precious metals and precious stones, which are an integral part of the state's gold and foreign exchange reserves;

- revision and verification of the legality and timeliness of the movement of funds from the state budget and state funds in state banks and other financial and credit institutions;

- control over the targeted use of credit resources and foreign investments attracted by the Government of the Republic of Tajikistan, as well as the National Bank of the Republic of Tajikistan in agreement with the Government of the Republic of Tajikistan;

- analysis of identified deviations from the approved indicators of the state budget and state funds and preparation of proposals aimed at their elimination;

- verification and analysis of the activities of bodies exercising the functions of intradepartmental financial control;

- control over the financial and economic activities of state economic entities, as well as their ensuring the safety of state funds and state property;

- submission to the President of the Republic of Tajikistan of information and conclusions on the results of analytical and control activities and on the execution of the state budget for the past year, as well as a generalized annual report on the results of audits and inspections in the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan.

State financial control is based on the following principles:

- legality;

- objectivity;

- independence;

- publicity.

State financial control is based on the standards of control and audit work used in international practice. In the process of implementing tasks, in accordance with the regulatory legal acts of the Republic of Tajikistan, control and revision, analytical, information and other activities are carried out, a unified system of state financial control over the financial and economic activities of state economic entities, the formation and execution of the state budget, the use of state property, which includes:

- conducting comprehensive audits and thematic audits on the execution of the republican and local budgets, state funds, including the maintenance of public authorities and administration of the Republic of Tajikistan, on servicing the internal and external debt of the Republic of Tajikistan, on the use of external assistance received by the Government of the Republic of Tajikistan or under its guarantee, financing of state organizations and institutions operating abroad, as well as on the use and preservation of state property;

- organization of comprehensive audits and thematic audits of the financial and economic activities of state economic entities;

- conducting thematic inspections on the issues of acceptance, use and storage of the state fund of precious metals and precious stones, which are part of the state's gold and foreign exchange reserves;

- carrying out inspections of servicing the funds of the republican and local budgets by the National Bank of Tajikistan, state and commercial banks;

-carrying out inspections of servicing the state debt of the Republic of Tajikistan by the National Bank of Tajikistan;

- preparation and submission to the President of the Republic of Tajikistan of quarterly information on the results of control activities and measures taken to ensure control.

**Methods of financial control**

There are the following control methods:

1) documentary and cameral checks;

2) surveys;

3) supervision;

4) analysis of the financial condition;

5) observation (monitoring);

6) revisions.

When conducting **audits** of reporting documentation and expenditure documents, certain issues of financial activity are considered and measures are outlined to eliminate the identified violations.

The survey covers a wider range of financial and economic indicators of the studied economic entity to determine its financial condition and possible development prospects.

Supervisory authorities supervise economic entities that have received a license for a particular type of financial activity. It implies compliance with established rules and regulations.

An analysis of the financial condition as a kind of financial control involves a detailed study of financial and accounting statements (periodic or annual) for a general assessment of the results of financial activities, the provision of own capital and the effectiveness of its use.

Observation (monitoring) - constant control by the creditor over the use of the issued loan and the financial condition of the client. The inefficient use of the received loan and the decrease in liquidity may lead to tightening of credit conditions or the requirement for early repayment of the loan.

Audit is the most profound and comprehensive method of financial control. Its essence lies in a complete examination of the financial and economic activities of an economic entity in order to verify its legality, correctness, expediency, and effectiveness. Types of audit: full and partial, complex and thematic, scheduled and unscheduled.

**6.2. State financial control body in the Republic of Tajikistan**

For the purpose of state financial control, the President of the Republic of Tajikistan creates a body of state financial control, which is the main body of state financial control in the Republic of Tajikistan and is accountable to the President of the Republic of Tajikistan.

The Agency for State Financial Control and Combating Corruption of the Republic of Tajikistan, being the authorized body of state financial control and law enforcement agency, exercises state financial control over the effective use of public funds and state property to ensure the economic security of the state by preventing, preventing, detecting, suppressing corruption offenses, disclosing , inquiry and preliminary investigation of corruption crimes, economic crimes of a corruption nature and crimes related to taxes, as well as other tasks provided for by the regulatory legal acts of the Republic of Tajikistan.

The position, structure, number and wage fund of the Control Body are approved by the President of the Republic of Tajikistan.

When considering materials on the results of inspections and audits at meetings of the Control Body, reports and explanations of heads and officials of ministries, departments and other state organizations and institutions are heard.

All republican and local state authorities and administrations of the Republic of Tajikistan, the National Bank of Tajikistan, state enterprises, institutions and organizations, as well as other individuals and legal entities are obliged, at the request of the Control Body, to provide the necessary information on the ongoing inspection and audit.

Banks of all levels are required to provide the Control Authority with the necessary information on the movement of public funds through customer accounts, regardless of their form of ownership.

When conducting audits and inspections, the Control Body receives information and copies of documents from the audited enterprises, institutions, organizations and banks. All individuals and legal entities are required to provide the necessary documentary evidence of transactions, certificates and copies of documents on these transactions and settlements.

Refusal or evasion of officials and individuals of the above bodies, enterprises, institutions and organizations from the timely submission of the necessary information or documentation, as well as the submission of deliberately false information, entails liability in accordance with the current legislation of the Republic of Tajikistan.

In order to perform the functions assigned to it, the Control Body has the right to conduct audits and checks, as well as to check the effectiveness of the use of public funds and property in all state bodies, organizations, institutions and state enterprises of the Republic of Tajikistan.

Control powers are also exercised in relation to local self-government bodies, individuals and legal entities, regardless of types and forms of ownership, if they receive, transfer or use funds from the state budget, state property, or manage it.

Audits (no more than once every two years) and thematic audits in accordance with approved plans are carried out at the location of the inspected objects on the basis of an order from the management of the Control Body to conduct an audit and verification.

Thematic inspections of other economic entities, regardless of their form of ownership, in terms of their receipt, transfer and use of state budget funds, the execution of state orders and the use of state property, are carried out in cases where these inspections are caused by the need to conduct a counter inspection on a specific fact.

Interfering with the activities of employees of the Control Body within the limits of their powers, exerting pressure to make a decision in favor of one side or another, violent actions, as well as slander or dissemination of distorted information about the performance of their official duties, entail liability in accordance with the legislation of the Republic of Tajikistan.

In order to compensate for the damage caused to the state, identified during the audit and inspection of the audited object, employees of the Control Body have the right through third parties (financial body, bank or other financial and credit institution) to send a notification (instruction) obliging the enterprise, institution and organization to make a direct payment to the appropriate budget of the amount due no later than 30 days from the date of receipt of the notification.

The heads of the inspected objects are obliged to create the necessary conditions for the work of the inspectors who carry out the audit or verification, provide them with premises, means of communication, and ensure the performance of office work.

Employees of the Control Body are responsible in accordance with the legislation of the Republic of Tajikistan for violation of the established procedure for conducting audits and inspections, disclosure of the results of audits and inspections carried out by them, as well as state, banking or other legally protected secrets that became known to them in the course of their activities, as well as for abuse of official position. This liability may also apply to employees after the termination of their public service.

Complaints and statements about illegal actions of employees of the Control Body are accepted and considered in accordance with the current legislation of the Republic of Tajikistan.

**CONTROL QUESTIONS**

1. What is the economic essence of the financial planning process?

2. What changes did the market reforms bring to the financial planning process, why was it necessary?

3. What features distinguish financial planning from a single planning system?

4. On what principles is the organization of financial planning based?

5. What tasks is the financial planning process designed to serve?

6. With the help of what methods is financial planning practically carried out?

7. What is the product (result) of financial planning?

8. What is the system of financial plans, what types of plans does it include?

9. Describe the distinctive features of centralized financial plans?

10. What types of decentralized financial plans are used in current practice?

**TEST**

@1. Monitoring is:

$A) periodic control of the financial condition of the subject

$B) a set of checks on the financial condition of the subject

+$C) constant monitoring of the financial condition of the entity as a whole or one of the parties.

$D) a special program of financial control of the subject

@2.Revision does not happen:

$A) complete

+$B) preliminary

$C) partial

$D) thematic

@3. The main method of financial control is not ...

$A) revision

$B) Account check

+$C) case study

$D) economic analysis

@4. The main direction of reforming financial control is:

+ $A) development and implementation of a single legal act of control $B) elimination of duplicative and parallel functions of various control bodies

$C) increasing the responsibility of financial workers for poor quality work and violations of the law

$D) unification of various control bodies

@5. The main type of financial control is not:

$A) current control

$B) final control

+$C) comprehensive control

$D) preliminary control

@6. Financial control is:

$A) one of the stages of financial management

$B) the form of implementation of the control function of finance

$C) a set of actions to verify the activities of business entities

+$D) a set of measures of people's subjective activity to observe, compare, verify and analyze the movement of money resources.

@7. The functions of the Accounts Chamber of the Republic of Tajikistan do not include:

+$A) Appointment and dismissal of the Minister of Finance

$B) control of the receipt and expenditure of federal budget funds and federal off-budget funds

$C) Determining the efficiency and feasibility of spending public funds and using federal property

$D) financial evaluation of draft federal laws

@8. The main reasons for the need to control socio-economic processes do not include:

$A) lack of 100% probability in certain process developments $B) desire to develop success in a particular activity

+$C) detection of financial irregularities

$D) the importance of crisis prevention

@9. The functions of financial control do not include:

$A) stimulating the intensification of financial processes

$B) prevention of crisis situations in the financial system

+$C) Ensuring that funds are received and spent on time

$D) Providing timely and reliable cash flow information

@10. What is not included in the main tasks of financial control?

$A) avoiding theft and identifying reserves for efficient use of funds

$B) compliance with accounting and reporting rules

$C) checking the correctness and timeliness of receipts

+$D) verification of expenditures of all parts of the financial system

**TOPIC 7. ORGANIZATION AND PLANNING OF ACTIVITIES FOR FINANCIAL CONTROL IN THE REPUBLIC OF TAJIKISTAN**

Control activities are built on the basis of biennial plans for comprehensive audits and annual plans for thematic audits, which are formed based on the need to ensure comprehensive systemic control over the use of public funds and state property, taking into account all areas of control activities.

Planning is carried out on the basis of technical and economic standards, control and revision standards, guidelines. The plan of audits and thematic audits is approved by the President of the Republic of Tajikistan.

Unscheduled control measures are carried out at the direction of the President of the Republic of Tajikistan or at the request of law enforcement agencies on initiated criminal cases based on the order of the leadership of the Control Body.

Thematic audit of individual entrepreneurs and non-state legal entities on receipt, transfer or use of public funds, public funds, loans attracted by the Government of the Republic of Tajikistan or under its guarantee is carried out by the state financial control bodies in accordance with the requirements of the Law of the Republic of Tajikistan “On Audits of the Activities of Economic Entities in Republic of Tajikistan” only for these funds.

Comprehensive audits and thematic inspections in accordance with the approved plans are carried out at the location of the objects being inspected.

Based on the results of the audits and inspections, an act is drawn up, which reflects the basis, purpose, subject, object of the inspection, a list of missing or unsubmitted documents, information about the identified shortages, damage and losses, as well as recommendations for taking measures to eliminate the identified deficiencies.

The head of the inspected object within three days is obliged to familiarize himself with the act of audit or inspection and sign it. If the responsible official disagrees with the facts established by the audit or audit, the act is signed indicating the presence of comments or objections. If the official refuses to familiarize himself or sign the act, the inspector must, with the participation of witnesses, make an appropriate entry in the act indicating the date and circumstances of the refusal.

When conducting audits and inspections, inspectors should not interfere in the operational and economic activities of the inspected object, as well as publicize their conclusions until the audit (inspection) is completed and its results are formalized in the form of an act (conclusion).

Information received by the inspectors and persons involved in the course of audits and inspections cannot be used for personal purposes.

In the process of executing the state budget, an audit and analysis of the activities of tax, customs, treasury, financial, banking and other government bodies is carried out to ensure the completeness and timeliness of the collection of tax and non-tax revenues to the budget, as well as control over the actual spending of budget funds. In comparison with the approved indicators of the state budget, they are analyzed, and if violations are identified, proposals are made to eliminate them. The formation and effective use of state funds are also controlled.

Control over the state of the state internal and external debt is carried out:

- management and servicing of the state internal and external debt of the Republic of Tajikistan;

- the legality, rationality and efficiency of the use of foreign loans, grants, humanitarian and technical assistance received by the Government of the Republic of Tajikistan, as well as loans received by economic entities under a state guarantee;

- the provision of state loans, guarantees, as well as the provision of state funds free of charge to foreign states and organizations.

**Control over the spending of funds of state organizations,** representations and institutions operating abroad and financed from the state budget, is carried out in terms of volume, structure, intended purpose and expediency of their spending.

The activities of state administration bodies and state economic entities for the intended use of funds provided for investment in the economy, including the creation and development of enterprises of non-state forms of ownership, are controlled.

An audit of revenues to the state budget and the targeted use of funds received:

- from the disposal and management of state property (including its privatization, sale and lease), as well as income from dividends of state investments;

- from the use of natural resources.

Control is exercised over the activities of state and commercial banks in terms of servicing the state budget, state funds and state loans of the Republic of Tajikistan.

Based on the results of the control measures carried out and consideration of the materials of audits and inspections, instructions are sent to the state authorities and administration of the Republic of Tajikistan and the heads of the enterprises, institutions and organizations being inspected to take measures to eliminate the identified violations, compensate for the damage caused to the state and bring the perpetrators to disciplinary and financial responsibility.

In cases where theft of state funds or material resources, as well as other signs of crimes and abuses, are detected during an inspection or audit, within 5 days after their consideration, the materials of the audit or audit are transferred to the prosecutor's office for further consideration and decision on them.

Written control submissions and prescriptions must be considered within the time limits specified in them or, if the time limits are not specified, within 20 days from the date of their receipt. Organizations and institutions that have received written instructions are obliged to inform about the measures taken to eliminate the shortcomings indicated in them.

In case of non-fulfillment or improper fulfillment of control submissions and instructions, information about this, in accordance with the procedure established by law, is transferred to the prosecution authorities of the Republic of Tajikistan for taking appropriate measures.

Revocation, amendment and cancellation of submissions and instructions is carried out by the management of the Control Body.

**CONTROL QUESTIONS**

1. Describe the main stages in the formation and development of financial control in Russia.

2. What factors determine the need for financial control?

3. What is the economic essence of financial control?

4. What is the purpose of financial control?

5. What are the objects of financial control?

6. What tasks is designed to solve financial control?

7. On what grounds can financial control be classified?

8. What are the main differences between the methods of financial control?

9. What types of audits are carried out in the process of financial control?

10. What bodies exercise financial control, what tasks are within their competence?

**Test**

@1. Economic analysis as a method of financial control is

$A) In establishing the guilt of officials, in committing certain violations of the law;

$B) Verification of compliance by employees of the organization with official duties, as well as regulations governing economic activities;

$ C) In identifying the influence of factors on the performance of a business entity with the help of special analysis techniques, it allows to reveal untapped reserves for increasing production efficiency.

@2. According to the nature of control functions, control is divided into

$A) Legal, economic, industrial and technical;

$B) Legal, factual, selective;

$C) Documentary, factual, partial.

@3. Which body conducts state financial control?

$A) Federal Service for Financial and Budgetary Supervision of the Federal Treasury;

$B) Accounts Chamber of the Russian Federation;

$C) Federal Insurance Supervision Service.

@4. The objects of state financial control are

$A) State bodies and structures;

$B) Public non-governmental organizations;

$C) Both answers are correct.

@5. The essence of on-farm control is

$A) Verification of compliance with the establishment of the procedure for organizing and conducting certain business operations within their competence, control is entrusted to specialized inspections;

$B) Protecting the interests of the organization and its staff from abuse, ensures increased efficiency of its economic activities and is carried out within the organization by departments, services;

$C) Implementation based on public institutions and laws that oblige executive authorities to provide information to all interested parties.

@6. Audit is

$A) Local control;

$B) Independent control;

$C) Special.

@7. The main method of financial control is not

$A) Revision;

$B) Sociological research;

$C) Thematic check.

@8. It does not apply to the functions of financial control

$A) Ensuring that funds are received and spent on time;

$B) Ensuring the rational and targeted use of funds and resources to achieve the goals;

$C) Control over the identification of deficiencies and abuses, ways to eliminate them and prevent them in the future.

@9. Financial control is classified.

$A) By methods of implementation;

$B) By the nature of the subjects;

$C) By content.

**TOPIC 8. ACTIVITIES OF THE ACCOUNTS CHAMBER OF THE REPUBLIC OF TAJIKISTAN IN STATE CONTROL.**

**8.1. Tasks and structures of the Accounts Chamber of the Republic of Tajikistan**

**8.2. Structure of the Accounts Chamber**

**8.3. The content of the audit activity of the Accounts Chamber**

**8.1. Tasks and structures of the Accounts Chamber of the Republic of Tajikistan**

**Accounts Chamber of the Republic of Tajikistan**, is the supreme financial control body of the Republic of Tajikistan, which conducts an independent external audit to assess the execution of the state budget and prepares proposals for its improvement.

The powers of the Accounts Chamber to conduct an independent external audit extend to all branches of government of the Republic of Tajikistan. The Accounts Chamber does not have executive, legislative, law enforcement powers, but is subject to the Constitution of the Republic of Tajikistan and other legislative acts of the Republic of Tajikistan.

The Accounts Chamber is not intended to assess the advantages and disadvantages of the policy of the Government of the Republic of Tajikistan in the field of public finance and the use of state property. The Accounts Chamber has the right to assess the implementation of this policy and present its opinions on the results of this assessment.

The Accounts Chamber is a legal entity, has a seal depicting the State Emblem of the Republic of Tajikistan with its name and its own symbols. The permanent seat of the Accounts Chamber is the city of Dushanbe.

The activities of the Accounts Chamber are carried out in accordance with the following principles:

- legality;

- independence;

- objectivity, reliability and honesty;

- publicity to the extent that it does not contradict the requirements of the legislation of the Republic of Tajikistan;

- compliance with professional standards;

- Compliance with the principle of collegiality.

**The main objectives of the audit,** conducted by the Accounts Chamber are the following:

- assessment of the reliability of financial management systems, as well as the reliability of financial statements prepared by the relevant structure (financial audit);

- assessment of the achievement of the tasks assigned to the organization or any of its subdivisions (performance audit);

-assessment of the economy and expediency of using the budgetary funds allocated by the relevant structure (performance audit).

**Tasks of the Accounts Chamber**

The Accounts Chamber, in accordance with the established procedure, submits an opinion on the draft state budget and its implementation.

The Accounts Chamber conducts audits in order to provide objective information to the President of the Republic of Tajikistan and the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan to assist in monitoring the use by the Government of the Republic of Tajikistan of received and spent state budget funds and proper management of public resources.

The following structures and activities are subject to audit conducted by the Accounts Chamber:

- all bodies financed from the state budget, including structures that are partially or fully self-supporting;

- all organizations where the share of the state's capital is a control one;

- National Bank of Tajikistan and other state banks of the Republic of Tajikistan;

- off-budget funds and nationwide targeted programs;

- State Agency for Social Insurance and Pensions;

- organizations of any form of ownership to which budgetary funds are allocated in the form of subsidies (on an irrevocable basis);

- implementation of intergovernmental agreements that have financial and other economic implications;

- privatization of state property, including the execution by the new owners of the privatization agreement with the state;

- management and use of natural resources of the Republic of Tajikistan, including the implementation of production sharing agreements;

- use of services and maintenance by the Government of the Republic of Tajikistan of state loans and reserves in foreign currency;

- receipt of funds from external sources of financing to the state budget and their intended use,

In order to protect operational independence, the Accounts Chamber:

- selects objects for inspections and conducts an audit, regardless of other state structures and from the officials heading such structures;

- independently determines the subject, methods and terms of inspections, as well as the form of presentation of the relevant conclusions;

- if the executive or legislative authorities apply to the Accounts Chamber with a request to conduct an unscheduled audit, it in each specific case decides to satisfy this request. In case of rejection of the request, sends a written justification to the requesting authority.

Employees of other state control bodies do not have the right to carry out control measures in the premises of the Accounts Chamber without the written permission of its chairman.

 The activities of the Accounts Chamber are subject to funding in accordance with the established procedure at the expense of the State Budget of the Republic of Tajikistan and are provided for in a separate line.

**8.2. Structure of the Accounts Chamber**

The Accounts Chamber consists of a chairman, a deputy chairman and five chief auditors who are members of the Accounts Chamber.

The Collegium of the Accounts Chamber includes the Chairman, Deputy Chairman and Chief Auditors of the Accounts Chamber.

The Board meetings are chaired by the Chairman of the Accounts Chamber or his deputy in the absence of the Chairman of the Accounts Chamber. In the absence of both the chairman and his deputy, this function is entrusted to the senior chief auditor participating in this meeting.

Members and employees of the Accounts Chamber are not entitled to hold another position, be deputies of representative bodies, members of parties and political organizations, engage in entrepreneurial activities, with the exception of scientific, creative and pedagogical activities.

The structure of the central apparatus, the regulation on it and the structural divisions of the Accounts Chamber are approved by the Chairman of the Accounts Chamber.

The chief auditors of the Accounts Chamber are appointed to the position of the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan on the proposal of the President of the Republic of Tajikistan for a period of seven years. Chief auditors of the Accounts Chamber cannot hold this position for more than two terms.

The highest body of the Accounts Chamber is the Board of the Accounts Chamber.

 The Board of the Accounts Chamber adopts the Regulations of the Accounts Chamber and approves the content of the areas of industries headed by the chief auditors of the Accounts Chamber.

 The Board of the Accounts Chamber is convened as necessary by the Chairman of the Accounts Chamber or at the request of one third of the auditors of the Accounts Chamber, but at least once a month. The Collegium of the Accounts Chamber is competent if at least two thirds of the members of the Accounts Chamber participate in it. The Board of the Accounts Chamber at its meeting makes a decision which is signed by the Chairman of the Board. Collegiums of the Accounts Chamber are open. In cases stipulated by law: and the Regulations of the Accounts Chamber, closed meetings may also be held.

Board of the Accounts Chamber:

- approves the annual work plan, changes and additions to the plan;

- approves the draft cost estimate of the Accounts Chamber;

- makes decisions on satisfaction of the request for an unscheduled audit;

- approves the audit reports of the Accounts Chamber;

- approves the Regulations of the Accounts Chamber and instructions on the methodology for conducting audits, and also makes amendments to these documents;

- approves the Code of Ethics of the Accounts Chamber;

- hears the reports of the head of the apparatus of the Accounts Chamber;

- approves annual and interim reports of the Accounts Chamber;

- approves the procedure for selecting external experts;

- takes decisions on other assignments of auditors.

**8.3. The content of the audit activity of the Accounts Chamber**

**The purpose of audits conducted by the Accounts Chamber** is to assess:

- compliance of the use of budgetary and other state resources with the legislation of the Republic of Tajikistan on the state budget and other regulatory legal acts of the Republic of Tajikistan;

- economical acquisition and efficient use of public resources to achieve the goals set in the state budget, as well as for the effectiveness of spending budget funds.

The Accounts Chamber develops and applies an appropriate methodology for carrying out its audit activities, including:

- guidelines for conducting audits, including the methodology of the Accounts Chamber in the field of audit;

- auditing standards based on international best practices.

 The audit methodology is an integral part of the Regulations of the Accounts Chamber.

The Accounts Chamber conducts audits consisting of the following stages:

- planning audits;

- performance of audit work in the field;

- preparation of audit reports;

- control over the elimination of deficiencies previously identified by auditors.

The Accounts Chamber develops an audit plan for the next year, which specifies the organizations (or subdivisions of the organization) and the types of their activities to be audited. The Accounts Chamber has the right to conduct unscheduled inspections, except for inspections carried out according to the plan.

When determining the topic and type of an audit to be performed using a risk-based approach, the Accounts Chamber takes into account the following criteria:

- the importance of the topic of the audit;

- the degree of risk inherent in these operations;

- the period that has elapsed since the completion of the previous check;

- the amount of budgetary funds allocated to this organization or to this program;

- deficiencies in the internal management system identified in the course of previous audits conducted by the Accounts Chamber or other control bodies.

For each audit, the chief auditors independently or jointly develop a draft audit plan, which is then submitted for approval by the Collegium of the Accounts Chamber.

 Each audit plan specifies the specific objective(s) to be achieved during the audit.

If necessary, as part of the audit conducted by the Accounts Chamber, a general analysis of the financial systems and the internal management system of the organization can be carried out. The purpose of this analysis is to establish compliance with financial reporting standards approved by the Ministry of Finance of the Republic of Tajikistan.

The Accounts Chamber notifies the management of the audited organization no later than 5 working days in advance about the upcoming audit, the start date of the audit and its duration,

Upon receipt of the notification, the management of the audited organization takes the necessary measures to ensure that the employees of the Accounts Chamber have the proper working conditions, as well as unlimited access to the responsible employees of the audited organization and the necessary information for the entire period of the audit.

If the principal auditor responsible for the review considers that advance notice may threaten the achievement of its objectives, no advance notice shall be provided. In this case, the chief auditor hands over to the head of the audited organization a letter from the chairman of the Accounts Chamber with a request to take immediate measures to start the audit without delay.

The audit is carried out by employees of the Accounts Chamber, which is headed by the chief auditor. Employees have the right to unrestricted access to all documents in the possession of the auditee that they determine are relevant to the objectives of the audit. They may make copies of such documentation.

Employees have the right to verify the availability and verification of the storage conditions of the material assets of the audited organization that are at the disposal of the organization, regardless of whether these valuables are located on the premises of the organization itself or in safekeeping with another organization.

Employees have the right to receive from responsible persons all the oral explanations and information they need for official purposes. They may also require employees of the audited organization to provide data in the form of special tables and lists.

Employees have the right to enter the premises of the audited organization at any time for official purposes. If the organization where the Accounts Chamber conducts an audit does not provide the employees of the Accounts Chamber with the requested information or does not allow employees of the Accounts Chamber to see responsible employees, the chief auditor immediately notifies his management of this issue in writing.

Employees of the Accounts Chamber are prohibited from disclosing any information obtained during the audit. Employees of the Accounts Chamber are required to treat all information obtained during the audit as confidential. They are allowed to discuss with the staff of the audited organization only those issues that are directly related to the audit.

The working documentation compiled by the Accounts Chamber employees during the audit is confidential and is the property of the Accounts Chamber. The storage of documentation should be organized in such a way as to exclude the possibility of familiarizing the employees of the audited organization with the contents of this documentation.

After completion of the audit, the chief auditor must familiarize the head of the organization with the results of the audit and, if he agrees with the conclusion and conclusions, put his signature in the audit report. If the head of the organization disagrees with the results of the audit and refuses to sign the audit report, the chief auditor who is responsible for the audit, with the participation of the commission, draws up an audit report and signs it. The head of the organization must justify his refusal to sign the act in writing.

If the organization in which the audit was carried out did not receive response comments on the comments and recommendations within the prescribed period, or it declares its intention not to correct the indicated shortcomings in whole or in part, the chief auditor prepares the final version of the opinion, to which is attached the response of the audited organization (if any). such) and submits it for consideration to the Board of the Accounts Chamber.

In the event that the Accounts Chamber reveals facts of misappropriation, waste, theft and shortages of public funds, the audit materials are sent to the relevant law enforcement agencies.

If the audited organization agrees to eliminate deficiencies in accordance with the recommendations formulated by the Accounts Chamber, a protocol is mandatory drawn up, which determines the timing of the implementation of these recommendations. In order to control the implementation of the recommendations of the Accounts Chamber and the elimination of identified shortcomings, the chief auditor carries out a subsequent verification of the implementation of the recommendations and the elimination of shortcomings. If the chief auditor, during the audit, makes sure that the recommendations of the Accounts Chamber have not been fully or partially implemented by the audited organization and the noted shortcomings have not been eliminated, these facts are submitted for consideration by the Collegium of the Accounts Chamber.

An official of the organization where the audit is carried out has the right to:

- know the timing and duration of the performance audit, its results, conclusions and recommendations (if any);

- prevent employees of the Accounts Chamber who have not submitted the relevant document giving the right to conduct a performance audit;

- receive a full written justification for the extension of the audit period, and if the official considers the extension of the audit unreasonable, he can apply to the court;

- demand compensation for losses incurred as a result of illegal actions on the part of employees of the Accounts Chamber;

in case of illegal actions on the part of employees of the Accounts Chamber, notify law enforcement agencies.

 An official of the organization where the audit is carried out:

- provides the employees of the Accounts Chamber with appropriate working conditions, as well as the requested information necessary for the audit and ensures the reliability, objectivity and completeness of this information;

- does not interfere with the actions of the Accounts Chamber employees, does not mislead them, does not interfere with the audit and does not limit its scope;

- allows employees of the Accounts Chamber to audit and study documents during working hours without interrupting the audited organization from doing its business.

Refusal or evasion of officials of the organizations where the audit is carried out from timely provision of the necessary information or documentation at the request of the Accounts Chamber, as well as the provision of false information and refusal to answer lawfully posed questions, entails responsibility in the manner determined by the legislation of the Republic of Tajikistan.

The Court of Accounts may use the services of external experts to assist it in the performance of its audit work. The costs of paying for the services of third-party experts are covered by the budget of the Accounts Chamber.

The selection of third-party experts is carried out within the framework of the procedure presented by the Chairman of the Accounts Chamber and approved by the Collegium of the Accounts Chamber.

The Accounts Chamber submits to the President of the Republic of Tajikistan and the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan an audit opinion on the annual report of the Government of the Republic of Tajikistan on the execution of the state budget for the previous year. The conclusion of the Accounts Chamber should contain conclusions regarding:

- execution of the state budget in terms of legality, economy and efficiency;

- the feasibility and expected economic effect of changes in the amount of public internal and external debt;

- expected consequences of granting loan guarantees by the Government of the Republic of Tajikistan:

- reliability of financial accounting and reporting of organizations spending the state budget.

Annually, the Accounts Chamber submits to the President of the Republic of Tajikistan and the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan a generalized report on its audit activities.

The Accounts Chamber has the right at any time to submit audit reports to the President of the Republic of Tajikistan on urgent issues that require urgent action.

The Accounts Chamber, no later than the end of the first quarter of the next financial year, submits to the President of the Republic of Tajikistan and the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan a report on the execution of the budget of the Accounts Chamber.

The report can provide information in the following areas:

- personnel issues;

- professional development of employees;

- improvement of methodology;

- Information Technology;

- issues of financing the Accounts Chamber.

**Performance audit**

**The purpose of a performance audit** are a qualitative improvement in the very process of managing public resources by providing complete, reliable and objective information about the activities of organizations involved in the budget process.

The performance audit prepares a report for the President of the Republic of Tajikistan and the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan on the issues of economy, finance, efficiency of operational and administrative activities of the Government of the Republic of Tajikistan, as well as providing recommendations for improving budget legislation.

**The main functions of a performance audit** are:

- control audit of the activities of controlled organizations and determination of the reasons for the inefficient use of budgetary funds by their recipients;

- analytical search and determination of cause-and-effect relationships of the work of executive authorities and its results;

- synthetic formation, determination of recommendations to improve the efficiency of the audited organizations;

-providing the legislature with the opportunity to evaluate the effectiveness of decision-making on the regulation of the budget process;

- providing state executive authorities with information and recommendations to improve the efficiency of resource use.

**Financial audit of the Accounts Chamber**

The activities of the Accounts Chamber are subject to an annual **financial audit,** which must be carried out by a professional audit non-state company appointed by the Chairman of the Accounts Chamber after a tender.

The tasks of this audit company include preparing an opinion on the degree of compliance by the Accounts Chamber with the relevant regulatory legal acts when spending budgetary appropriations.

The conclusion of the audit company is considered at a meeting of the Board of the Accounts Chamber.

Payment for the services of a professional audit company is carried out at the expense of the funds provided for in the estimate of expenses of the Accounts Chamber.

At least once every five years, in the manner determined by the President of the Republic of Tajikistan, the quality of audits conducted by the Accounts Chamber is assessed, the conclusion of which is sent to the President of the Republic of Tajikistan and Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan.

**Control questions**

1. What body is the Accounts Chamber of the Republic of Tajikistan in the financial control of the Republic of Tajikistan

2. What kind of person is the Accounts Chamber of the Republic of Tajikistan

3. In which city of the republic is the Accounts Chamber a permanent place of residence

4. What are the main objectives of the audit conducted by the Accounts Chamber of the Republic of Tajikistan

5. Give a description of the structure of the Accounts Chamber of the Republic of Tajikistan

6. Members and employees of the Accounts Chamber have the right to hold another position in their activities in the Chamber

7. Who is the supreme body of the Accounts Chamber of the Republic of Tajikistan?

**Test**

@1. What is the main purpose of an audit conducted by the Accounts Chamber?

$A) Evaluation of the reliability of financial management systems, as well as the reliability of financial statements prepared by the relevant structure (financial audit);

$B) Evaluation of the achievement of the tasks set for the organization or any of its subdivisions (performance audit);

$C) assessment of the economy and expediency of using the budgetary funds allocated by the relevant structure (performance audit);

+$D) All answers are correct;

$E) All answers are wrong;

@2. What measures does the Accounts Chamber take to protect operational independence?

$A) selects objects for inspections and conducts audits, independently of other state structures and from the officials heading such structures;

$B) independently determines the subject, methods and terms of inspections, as well as the form of presentation of the relevant conclusions;

$C) if the executive or legislative authorities apply to the Accounts Chamber with a request to conduct an unscheduled audit, it in each specific case decides to satisfy this request;

+$D) All answers are correct;

$E) All answers are wrong;

@3. Can the Accounts Chamber hold closed meetings on a legislative basis?

+$A) yes they have rights;

$B) no do not have rights;

$C) partially may;

$D) All answers are correct;

$E) All answers are wrong;

@4. The Accounts Chamber of the Republic of Tajikistan to whom it provides an audit opinion on the annual report

$A) the President of the Republic of Tajikistan;

$B) Majlis Namoyandagon Majlisi Oli of the Republic of Tajikistan;

$C) the General Prosecutor's Office of the Republic of Tajikistan;

+$D) President of the Republic of Tajikistan and Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan;

$E) All answers are correct;

@5. What main points should contain the Conclusion of the Accounts Chamber of the Republic of Tajikistan

+$A) execution of the state budget in terms of legality, economy and efficiency;

$B) the feasibility and expected economic effect of changes in the amount of public domestic and external debt;

$C) the expected consequences of the provision of loan guarantees by the Government of the Republic of Tajikistan;

$D) reliability of financial accounting and reporting of organizations spending state budget funds;

$E) All answers are correct;

@6. Regardless of the term and time, does the Accounts Chamber have the right to submit audit reports to the President of the Republic of Tajikistan on issues of an urgent nature?

+$A) yes they have rights;

$B) no not eligible;

$C) Depends on the situation;

$D) All answers are correct;

$E) All answers are wrong;

@7. The main functions of a performance audit are:

$A) control audit of the activities of controlled organizations and determination of the reasons for the inefficient use of budgetary funds by their recipients;

$B) analytical search and determination of cause-and-effect relationships of the work of executive authorities and its results;

$C) synthetic formation, determination of recommendations for improving the performance of audited entities;

$D) providing legislative authorities with the opportunity to evaluate the effectiveness of decision-making on the regulation of the budget process, as well as providing state executive authorities with information and recommendations to improve the efficiency of resource use;

+$E) All answers are correct;

**TOPIC 9. NON-STATE FINANCIAL CONTROL**

**9.1. Intracompany financial control**

**9.2. The main conditions of audit activity**

**9.1. Intracompany financial control**

The formation of the foundations of a market economy increases the role of those types of financial control that are carried out on the basis of laws, but without the direct participation of state regulatory bodies.

Non-state types of financial control include:

**1) intracompany (corporate);**

**2) control by commercial banks over organizations**

**clients;**

**3) audit control.**

**Intracompany financial control** carried out by the economic services of the enterprise itself, firm, corporation - accounting, financial department, financial management service and others - for the finances of their enterprise, its branches and subsidiaries.

Internal control services monitor the effectiveness and expediency of monetary costs, both own and borrowed funds; analyze and compare actual financial results with forecasted ones; evaluate financial results from investment projects; control the financial condition of the company. Internal control accompanies the entire process of investing capital.

The so-called post-audit means comparing the actual financial results at each stage of production and investment activities with those predicted in the financial section of the business plan; analysis and elimination of the causes of their discrepancy; search for ways to reduce costs and improve methods of financial forecasting.

The reform of the banking system and the emergence of commercial banks have significantly changed the functions of banks in the field of financial control. Commercial banks are required by law to control only compliance by client enterprises with the procedure established by the state for conducting settlement and cash transactions and currency legislation.

At the same time, commercial banks require enterprises to assess the financial condition and creditworthiness of the enterprise - a potential borrower. In the case of a loan, the bank monitors the use of the loan, the solvency and liquidity of the client in order to assess the likelihood of repayment of the loan with interest due on the due date. Such control by the bank is an important element of credit risk management.

**Audit control** – a new type of financial control that appeared in the Republic of Tajikistan in the late 1990s. The appearance in the market conditions of various commercial structures has sharply increased the demands on the part of society for their financial reliability and objectivity in assessing their financial condition.

The state is also interested in an independent examination of the financial statements of private commercial structures, especially considering that it is carried out at the expense of the economic entities themselves.

**Audit activity, audit** - this is an entrepreneurial activity for independent verification of accounting and accounting (financial) statements of individual entrepreneurs and legal entities.

The scope of audit activities and audit does not include inspection of budgetary institutions.

Audit checks do not exclude the implementation of state control over the reliability of accounting (financial) statements, carried out in accordance with the legislation of the Republic of Tajikistan, by authorized state bodies.

**The purpose of the audit activity** is an expression of opinion on the reliability and degree of accuracy of the accounting (financial) statements, which allows the user of these statements to draw the correct conclusions about the results of economic activity, the financial and property status of the audited entities.

**9.2. The main conditions of audit activity**

**The main conditions of audit activity are:**

- independence;

- objectivity;

- professional competence;

- confidentiality of audit results.

**Auditor** is an individual who meets the qualification requirements established by the body that carries out state regulation of audit activities and has an auditor qualification certificate.

The auditor has the right to carry out audit activities as an individual auditor or an employee of an audit organization involved in work on the basis of an employment contract, carrying out its activities without forming a legal entity.

Auditing activity consists of types of obligatory and initiative checks.

**Mandatory audit** - annual audit of accounting and accounting (financial) statements of legal entities. Mandatory audit is carried out by audit organizations.

Mandatory annual audits are subject to:

 - banks;

 - non-banking financial organizations carrying out certain types of banking operations and organizations operating in the securities market;

 - joint-stock companies of open type;

 - insurance organizations;

 - public funds;

 - subjects of natural monopoly;

 - stock and commodity exchanges, investment funds and state unitary enterprises that have the right to conduct business.

**Initiative audit** is carried out at the initiative of the audited entity, taking into account the specific tasks, terms and volumes of a specific audit provided for by the contract for an audit between the audited entity and an individual auditor or audit organization.

**Audit organization** - a commercial organization that performs audits and provides audit-related services.

An audit organization can be created in any organizational and legal form, if its organizational legal type corresponds to commercial organizations, with the exception of an open joint-stock company, a production cooperative and a state unitary enterprise.

Audit organizations carry out their audit activities after obtaining a license in the manner prescribed by the Law of the Republic of Tajikistan "On Licensing Certain Types of Activities".

Foreign individuals and legal entities, on the basis of the requirements of the law, may create audit organizations in the territory of the Republic of Tajikistan and carry out audit activities as an individual auditor.

The staff of the audit organization must be at least 70 percent of the citizens of the Republic of Tajikistan. If the head of the audit organization is a foreign citizen, at least 75 percent of employees must be citizens of the Republic of Tajikistan.

When conducting an audit, individual auditors and audit organizations have the right to:

 - independently determine the forms and methods of conducting an audit;

 - check in full the accounting documentation related to the financial and economic activities of the audited organization, as well as the actual availability of any property included in this documentation.

Intervention of state bodies, audited entities and any third parties in the activities of individual auditors and audit organizations is not allowed.

When conducting an audit, individual auditors and audit organizations are required to:

- carry out an audit on the basis of the legislation of the Republic of Tajikistan;

- provide, at the request of the audited entity, the necessary information about the requirements of the legislation of the Republic of Tajikistan regarding the conduct of an audit, as well as the regulatory legal acts of the Republic of Tajikistan, on which the comments and conclusions of an individual auditor and an audit organization are based;

- within the time period established by the contract for the provision of audit services, to transfer the audit report to the audited entities or persons who have entered into an agreement for the provision of audit services.

Conducting an audit does not release the audited entities from liability for non-compliance of the presented accounting (financial) statements and other documents with the requirements of the legislation of the Republic of Tajikistan.

Individual auditors and audit organizations are required to maintain secrecy about the transactions of audited entities and individuals who have received audit-related services.

Individual auditors and audit organizations are obliged to ensure the confidentiality of information and documents received or compiled by them in the course of audit activities, and are not entitled to transfer the specified information and documents or their copies to third parties or disclose them without the written consent of the audited entities, in respect of which the audit was carried out and were services corresponding to the audit, with the exception of cases provided for by the laws of the Republic of Tajikistan.

**Audit report** - an official document intended for users of the accounting (financial) statements of audited entities, drawn up in accordance with the standards of auditing and containing the opinion of an individual auditor or an audit organization expressed in the established form on the reliability of the accounting (financial) statements of an audited entity and in accordance with the procedure for maintaining its accounting accounting for the legislation of the Republic of Tajikistan. The form, content and procedure for submitting an audit report are determined by the standards of audit activity and other regulatory legal acts of the authorized body.

**Control questions**

1. The essence and objectives of financial control.

2. Organization of financial control: forms, types and methods.

3. Bodies of financial control, their rights and obligations.

4. Non-state financial control.

5. Methods of financial control.

**Test**

@1. Which of the following principles reflects social control?

$A) gratuitous participation in the implementation of control

$ B) the mandatory nature of participation in the implementation of control

$C) ensuring the financial security of the state

$D) observance of the financial interests of all business entities

$E) urgency

@2. Which of the following principles reflects social control?

$A) voluntariness of participation in the implementation of control

$ B) remuneration of participation in the implementation of control

$C) ensuring the financial stability of business entities

$D) strengthening the responsibility of business entities for the results of their activities

$E) territoriality

@3. Aggregate activities of citizens of the Republic of Tajikistan and their associations aimed at maintaining transparency and taking into account public interests, improving the efficiency of state bodies, local governments, strengthening their responsibility to society

$A) public control

$B) audit

$C) the system of state financial control bodies

$D) departmental financial control

$E) internal control of the executive bodies of state power

@4. Independent from any external influence verification of financial statements and related financial information of an economic entity

$A) audit

$B) social control

$C) the system of state financial control bodies

$D) departmental financial control

$E) internal control of the executive bodies of state power

@5. Public control is carried out in order to

$A) protection and provision of public interests, rights and freedoms of citizens, legitimate interests of individuals and legal entities

$B) establishing the compliance of the practice of managing financial resources in all spheres of production and distribution of the social product with the objectives of the state's financial policy

$C) meeting the needs of customers in objective information about the financial condition of the entity

$D) Customer Satisfaction

$E) assessment of the financial position of the audit subject

@6. The main goal of state financial control is

$A) establishing the compliance of the practice of managing financial resources in all spheres of production and distribution of the social product with the tasks of the state's financial policy

$C) protecting and ensuring public interests, the rights and freedoms of citizens, the legitimate interests of individuals and legal entities

$C) meeting the needs of customers in objective information about the financial condition of the entity

$D) Customer Satisfaction

$E) assessment of the financial position of the audit subject

@7. The purpose of audit financial control does not include

$A) the adoption of sanctions against the management of an economic entity in case of detection of shortcomings or violations

$C) meeting the needs of customers in objective information about the financial condition of the entity

$C) prevention of financial irregularities and failures

$D) meeting the needs of customers in objective information about the financial condition of the entity in order to assess its financial position

$E) providing conclusions on the reliability of the client's financial statements and on its financial position

@8. What can the auditor do when significant deficiencies or irregularities are identified?

$A) issue an adverse audit opinion

$B) present penalties against the management of the business entity

$C) present penalties against a legal entity

$D) go to court

$E) independently eliminate the identified violations

@9. Independent non-departmental financial control, which can be mandatory and proactive, is:

$A) audit control

$B) state financial control

$C) control of financial and credit institutions

$D) on-farm control

$E) tax control

@10. System of state financial control bodies

$ A) an element of the general structure of the state control bodies, acting as the most important part of the financial mechanism through which the state implements its financial policy

$A) a set of interrelated elements that interact with each other and form an integral unity in the process of achieving control goals

$ B) independent of external influence activities of an economic entity or management body to verify and evaluate their work, carried out by them in their own interests

$C) the established procedure for the implementation of control actions and operations

$D) activities of subjects of control, carried out by applying appropriate methods and techniques, aimed at achieving their goals in the most effective ways

$ E) verification of the correctness and timeliness of settlements with the budget and state non-budgetary funds