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SUMMARY

The purpose of this paper is to shed light on the impact of financial globalization and integration on emerging Europe countries. In the first section connection between financial globalization and capital raising will be analyzed. Part two will deal with the effects of financial integration on growth in European transition economies. In the third part the emphasis will be put on the influence of financial globalization on fiscal performance in emerging Europe. Finally, in the concluding part, the impact of 2007-2009 crisis on financial globalization will be analyzed.

Keywords: financial globalization, financial integration, emerging European countries, economic growth, capital raising.

РЕЗЮМЕ

Цель этой статьи - оценить воздействие финансовой глобализации и интеграции на развивающиеся европейские страны. В первой части проанализирована связь между финансовой глобализацией и наращиванием капитала. Во второй части речь будет идти об эффектах финансовой интеграции на рост в европейских транзитивных экономиках. В третьей части акцент сделан на влиянии финансовой глобализации на фискальную деятельность в развивающейся Европе. Наконец, в заключительной части, проанализировано воздействие кризиса 2007-2009 гг. на финансовую глобализацию.

Ключевые слова: финансовая глобализация, финансовая интеграция, развивающиеся европейские страны, экономический рост, наращивание капитала.

РЕЗЮМЕ

Мета цієї статті - оцінити вплив фінансової глобалізації та інтеграції на європейські країни, що розвиваються. В першій частині проаналізований зв'язок між фінансовою глобалізацією та нарощуванням капіталу. У другій частині мова буде йти про ефекти фінансової інтеграції на ріст у європейських транзитивних економіках. У третій частині акцент зроблений на впливі фінансової глобалізації на фінансову діяльність в Європі, що розвивається. Нарешті, у заключній частині, проаналізований вплив кризи 2007-2009 р. на фінансову глобалізацію.

Ключові слова: фінансова глобалізація, фінансова інтеграція, європейські країни, що розвиваються, економічне зростання, нарощування капіталу.

THE PERSPECTIVES OF ARMENIAN EXPORT EXPANDING

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Foreign economic policy of Armenia is based on the liberal principles and directed to the widening of its integration into the world economy [1]. Since 1991 Armenian government has signed bilateral trade and economic agreements with 40 countries from European, Asian and American regions [2]. Since 2003 Armenia is a member of WTO. Foreign trade policy of Armenia is directed to the formation of a favorable field for businesses involved in foreign trade and to the stimulation of export of domestic goods.

Describing the place of Armenia at the world trade arena we have to mention some peculiarities that impact foreign economic relations' development. The first is the geopolitical situation that is not favorable

for developing regional trade relations. The border is blockaded with two neighboring countries: Azerbaijan and Turkey. It means that the only land access to and from Armenia is via Georgia and Iran. Iran is under embargo by most of the rest of the world, and transport through Georgia is plagued by bribery, restricted travel time, insecurity, and the poor quality of roads and railways. Because of the situation in Georgia, trucking companies based in Armenia cannot transport goods competitively to the Black Sea or to Russia [3]. Recently the political relations with Turkey are slowly improving but in general situation has not been changed yet. The second is a post-soviet heritage. Armenia was deeply integrated into the common economic mechanism of USSR. After its collapse all economic ties between Armenia and other republics were broken that was caused by the role played by big industrial plants that produced mostly intermediary goods, with both suppliers and customers located in the rest of the former Soviet Union republics.

Thus we can characterize Armenia as a small, landlocked and economically blockaded country, which faces high transportation costs that impede to export of manufacturing goods, food, light industrial machinery, rubber, chemicals and electronics (these products were the main titles of export from Armenia to other Soviet republics). Now-a-days Armenia is developing niche markets in lightweight products with low transportation costs and highly skilled labor inputs (such as processed diamonds, precious stones, and computer software) which can be easily airlifted.

Since achieving macroeconomic stabilization in 1995 Armenia has demonstrated good economic results: economic growth averaged about 12% over 2001–2008 and recorded almost 6.8% in 2008 which was stipulated by financial crisis [4]. The volumes of Armenian foreign trade have been growing as well. For period 1997-2007 export increased about 5 times and import – about 3.5 times, the share of Armenia in the world trade grew about 2 times in export and 1.5 times in import. Trade turnover for 1997-2007 grew almost 4 times (Figure 1).

Figure 1: Dynamics of Armenian Foreign Trade Flows (millions US dollars) [4]



At the same time the trade balance deficit has been stably increasing: in 2007 it was 3.2 times higher than it was in 1997. The import flows have been exceeding export flows for whole observed period. Trade to GDP ratio of Armenia amounted about 49% in 2007 (mostly due to huge volumes of import) but the average value for “Low & middle income countries” (Armenia belongs to this group according to World Bank classification) was about 57%. As well geographical structure of Armenian foreign trade flows is rather concentrated: about 80.5% of Armenian export goes to ten countries, and about 66.5% of import comes from ten countries (Table 1). Herfindahl Index for exports is about 0.092, Herfindahl Index for imports amounts 0.089 [5].

Table 1: Geographical Structure of Armenian Foreign Trade Flows, % (2007) [4]

EXPORT		IMPORT	
Country	Share	Country	Share
1 Russia	17.5	6 USA	4.5
2 Germany	14.7	7 Bulgaria	4.1
3 Netherlands	13.5	8 Ukraine	4.0
4 Belgium	8.7	9 Iran	3.3
5 Georgia	7.6	10 Italy	2.6
Above 10	80.5	Above 10	66.5

This situation in a whole negatively characterizes Armenian foreign trade, especially export flows. Increasing of export volumes is the most urgent issue now-a-days. The main question is what countries can be considered as perspective partners for Armenia to expand trade with, first of all, export flows.

Therefore the goal of our research is to reveal the countries where Armenia has potential for expansion of export flows in order to advance the geographical structure of foreign trade.

The problem of the trade flows expansion is widely discussed in the modern economic literature. There are many studies dedicated to the revealing of determinants and perspective dimensions of the trade flows. In the most part of them the gravity model is used as an empirical tool for modeling bilateral trade flows between countries or traded blocks and for estimating trade potential. The authors apply gravity model for different samples augmenting it with the various factors [6-10].

The problems of Armenian foreign trade development are discussed among Armenian and foreign researchers. In general all papers present descriptive analysis of the foreign trade of Armenia or different aspects of Armenian international economic relations [3; 11].

There are just a few papers in which authors applied the gravity model for analyzing foreign trade of Armenia. Freinkman et al. used in their work the gravity model coefficients obtained by Frankel (their model included such variables as nominal GNP, nominal per-capita GNP, distance, adjacency dummy, language dummy, and bloc dummy; was based on 63 countries (excluding CIS countries) and used the 1992 data); and then estimated the 2001 realization ratios for all CIS countries based on the value for CIS dummy coefficient equal to 1.766 (identical to the one for the ASEAN block, obtained in the work of Frankel). The main finding was that Armenia had been lagging in its export development relative to most CIS countries [12]. Shepotylo employed the gravity model in order to compare the degree of export diversification of the CIS countries relative to other countries. The gravity equation was estimated with "out-of-sample" approach. Author found out that Armenia trade below its potential, while other CIS countries have more complex patterns [13]. So as we see there is a lack of empirical works concerning to Armenian foreign trade trends and potential. Our contribution to the existing literature is (i) estimating world trade flows for year 2007 using gravity model approach; and (ii) estimating trade potential for Armenia by product sectors in regional and international directions using gravity approach.

Theoretical foundations for applying the gravity equation to estimate trade flows are widely discussed in the literature. The gravity equation, based on the Newton's physics function that describes the force of gravity, firstly was applied in economics for analyzing bilateral trade flows between geographical entities in the studies of Tinbergen and Poyhonen. In the standard gravity equation, trade flows are expected to be dependent negatively on distance and positively on the sizes of the economies measured by GDP.

The standard gravity equation in the economic interpretation looks as:

$$Y_{ij} = \alpha X_i^{\beta_1} X_j^{\beta_2} D_{ij}^{\beta_3} \quad (1)$$

where: Y_{ij} – trade flows (export/import/trade turnover) between country i and country j;

X_i and X_j – economic “masses” of considered countries (GDP);

D_{ij} – distance between country i and country j;

α - constant of proportionality;

β_1, β_2 - positive coefficients; β_3 - negative coefficient.

Usually the augmented gravity model that includes additional variables which allow presenting more precise picture of the considered phenomena is applied. We consider AV_{ij} as a vector of additional variables. Thus, the augmented gravity equation for modeling bilateral trade flows looks as:

$$Y_{ij} = \alpha X_i^{\beta_1} X_j^{\beta_2} D_{ij}^{\beta_3} AV_{ij}^{\gamma} \quad (2)$$

where: AV_{ij} is a vector of additional variables that influence on trade flows.

In accordance to the modern theoretical and empirical literature on the matter and declared goal of our study we considered the following determinants of the bilateral trade flows: GDP per capita, distance, presence of common border / common language / colonial ties, whether one/both of the countries is/are landlocked, membership in traded blocks and integrated groupings. Taking into account that in our research the dependant variable is the foreign trade flows (export) between two trading countries we summarized the hypothesis that should be tested as follows:

- GDP per capita positively influences on bilateral trade flows. This variable is considered as a size of economy. Countries with higher GDP per capital may have possibility to import and export more than countries with lower GDP per capita. Thus we expected positive signs for the coefficients of “GDP per capita”.

- Distance negatively influences on bilateral trade flows. Greater distance between two countries may provide greater transportation costs for trade flows and it's also possible that the greater geographical distance is correlated with the larger cultural differences (we expect that countries with larger cultural similarities tend to trade more than countries with smaller or without cultural similarities). Thus we expected negative sign for the coefficient of "Distance".

- Presences of common border / common language / colonial ties positively influence on bilateral trade flows. Presences of common border /common language /colonial ties witness the long historical, cultural, economical and political relations between trading countries both at the interstate and inter-firm levels that may lead to the decreasing of the transaction costs. For example, common language is expected to reduce transaction costs in international trade as speaking the same language will simplify and promote trade negotiations. Similarly colonial ties provide shared history for countries and this is expected to reduce transaction costs caused by cultural differences. Thus we expected that the signs of the coefficients for the above mentioned variables would be positive.

- If one/both of the countries is/are landlocked negatively influences on bilateral trade flows. If a country is landlocked it increases the cost of trade as trade flows are limited in the choice of transportation. Taking into account that mostly international trade flows are carried by sea transport we assume that landlocked countries have some constraints in trade flows (especially higher transportation costs). Thus we expected that the sign of the coefficients of this variable would be negative.

- Membership in traded blocks and integrated groupings positively influences on bilateral trade flows. Countries join traded blocks and integrated groupings aiming to simplify and expand their trade relations. Thus we expected the positive sign for the coefficient of this variable.

Thus the specification of the augmented gravity equation for modeling trade flows in the log-form that to be estimated looks as:

$$\ln Y_{ij} = \alpha + \beta_1 \ln GDP_i + \beta_2 \ln GDP_j + \beta_3 \ln Dist_{ij} + \gamma AV_{ij} + u \quad (3)$$

where: Y_{ij} - export flows between country i and country j ,

GDP_i and GDP_j - GDP per capita in country i and country j , respectively;

$Dist_{ij}$ – distance between country i and country j ;

AV_{ij} – vector of additional variables;

u – disturbance term.

Our analysis was based on the maximum possible geographical coverage of the world trade flows for the 2007 (we didn't take the latest years in order to avoid the possible fluctuations that are caused by the recent financial crisis) and includes 139 countries all over the world.

The main data source for bilateral trade flows was the database of the United Nations Commodity Trade Statistics Database [14]. The product classification of our export data was based on the Broad Economic Categories 1-digit classification with the products being disaggregated into seven groups: 1) Food and beverages; 2) Industrial supplies; 3) Fuels and lubricants; 4) Capital goods (except transport equipment), including accessories and parts; 5) Transport equipment, including accessories and parts; 6) Consumer goods; and 7) Goods (not elsewhere classified). As a source for the data of the geographical distance and the dummy variables (Common border, Common language, Landlocked) we took CEPII database [15]. For the GDP per capita as a data source database "World Development Indicators 2008" served. As a source of data for Free Trade Agreements the UNESCAP Economic and Social Commission for Asia and the Pacific database served [16].

The estimator choice is an important issue for the interpretation of the coefficients, which depends on the underling interests. Different estimators not only give different parameter estimates but also different residuals, i.e. actual-to-potential trade ratios [17].

Santos Silva and Tenreyro found that the standard empirical methods used to estimate gravity equations are inappropriate. The basic problem is that log-linearization (or, indeed, any non-linear transformation) of the empirical model in the presence of heteroskedasticity leads to inconsistent estimates. Authors propose a simple Poisson pseudo maximum likelihood method which is robust to different patterns of heteroskedasticity and, in addition, provides a natural way to deal with zeroes in data [18].

Taking into account the above mentioned our results for export potential is based on Poisson model estimation. In Table 2 we present the estimation results for total export and for export of product groups (Export of Fuels and Lubricants and Export of Goods (not classified) are not presented).

Table 2: Results of Estimation by Poisson Model

	<i>Total Export</i>	<i>Export of Food and Beverages</i>	<i>Export of Industrial Supplies</i>	<i>Export of Capital Goods</i>	<i>Export of Transport Equipment</i>	<i>Export of Consumer Goods</i>
LnGDPimp	1.309*** (0.264)	0.985*** (0.214)	0.672*** (0.214)	0.606*** (0.249)	2.066*** (0.206)	-0.735*** (0.282)
LnGDPexp	0.476*** (0.064)	0.451*** (0.092)	0.558*** (0.052)	0.631*** (0.104)	0.709*** (0.098)	0.600*** (0.109)
LnDistance	-0.721*** (0.029)	-0.867*** (0.034)	-0.793*** (0.029)	-0.637*** (0.037)	-0.642*** (0.046)	-0.728*** (0.037)
Common Language	0.224*** (0.081)	0.284*** (0.106)	0.073 (0.098)	0.291*** (0.089)	0.197* (0.119)	0.370*** (0.104)
Common Border	0.493*** (0.080)	0.627*** (0.102)	0.492*** (0.080)	0.439*** (0.110)	0.556*** (0.110)	0.416*** (0.091)
Colony	0.179* (0.103)	0.402*** (0.118)	0.407*** (0.108)	0.153 (0.108)	-0.200 (0.156)	0.248** (0.125)
Landlocked	-0.503 (0.353)	-1.302*** (0.367)	-0.962*** (0.376)	-0.737* (0.427)	-0.560 (0.413)	-1.405*** (0.518)
FTA	0.452*** (0.094)	0.128 (0.122)	0.392*** (0.096)	0.453*** (0.117)	0.725*** (0.135)	0.291*** (0.109)
Logpseudolikelihood	-2.508e+12	-2.323e+11	-7.879e+11	-5.527e+11	-4.054e+11	-3.559e+11
Number of obs.	15732	15732	15732	15732	15732	15732

Source and host country fixed effects are included but not reported. Robust standard errors are presented in parentheses, ***, **, and * denote 1%, 5%, and 10% significance levels, respectively.

According to the results the determinants “Distance”, “Importer’s GDP per capita” and “Exporter’s GDP per capita” have expected signs and are highly statistically significant providing evidence for the predictions of the gravity equation. All columns in Table 2 are estimated using in-sample approach, because we found that using out-of-sample approach estimation we got the same coefficients.

Having estimated the gravity model for world bilateral trade flows (cross sectional data for the 2007) we proceeded to estimate export trade potential for Armenia. We calculated export trade potential as a difference between predicted by the model and actual export volumes. Depending on the value of the export trade potential we divided Armenia’s trading partners into two groups: (1) countries where Armenia has exceeded its trade potential in export; and (2) countries where Armenia has potential for expansion of trade (export).

Our results show that Armenia has exceeded its trade potential in total export and especially in export on product group “Industrial Supplies” with the most of countries that are its leading trading partners in export (Russia, Germany, Netherlands, Belgium, Georgia, Bulgaria, Ukraine, and Iran). However product groups “Food and Beverages” and “Consumer Goods” seemed to be perspective dimensions for expansion of Armenian export to these countries.

As well we should note that USA and Italy those are in the top-10 of Armenian importers have potential for expansion of Armenian export, moreover USA is on the first place and present the possibility to increase the volumes of Armenian export for 79.9 US\$ millions; Italy is on the 7th place with potential of 21.2 US\$ millions.

The top-10 countries where Armenia has potential for expansion of export are USA, Turkey, China, Japan, United Kingdom, France, Italy, United Arab Emirates, Hong Kong, and Saudi Arabia. Totally these countries present the possibility to increase the export volumes of Armenia on 353 US\$ millions.

In general analyzing the export trade potential of Armenia on total and on product groups we can point out a few moments. The main evidence is that the present geographical and product structures of Armenian export are insufficient: trade relations with most of the leading trading partners, including two neighboring countries – Georgia and Iran, have no potential for developing.

Among positive results we should note that the most perspective dimensions of export expansion are “Industrial Supplies” and “Food and Beverages” product groups.

Another interesting result is the fact that Turkey is on the second place for potential of Armenian export expansion and thus present the possibility to increase total Armenian export on 53.4 US\$ millions, including 67.8 US\$ millions for “Industrial Supplies” product group. Taking into account the political and geopolitical aspects of process of Armenian-Turkish border re-opening this fact can be interpreted as one of the evidences in favor of stimulating this process.

Resuming we can assume that reorientation and diversification of product and geographical Armenian export structures will stimulate the domestic production especially on “Industrial Supplies” and “Food and Beverages” product groups.

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РЕЗЮМЕ

Наше исследование посвящено изучению перспектив внешней торговли Армении путем оценки ее торгового потенциала; практический вклад исследования обусловлен современным состоянием внешней торговли и особенностями экономического развития Армении, а также геополитической ситуацией на Южном Кавказе. Мы выявили, что Армении исчерпала свой торговый потенциал в целом по экспорту, в т.ч. по экспорту продукции товарной группы «Промышленное производство», с большинством ее ведущих торговых партнеров.

Ключевые слова: торговый потенциал, экспорт, гравитационная модель, географическая структура экспорта.

SUMMARY

Our research aims to study the perspectives of foreign trade of Armenia by estimating its trade potential; its practical contribution is stipulated by the current condition of foreign trade and peculiarities of economic

development of Armenia and geopolitical situation in South Caucasus. We found that Armenia has exceeded its trade potential in total export and especially in export on product group “Industrial Supplies” with the most its leading trading partners in export. The top-10 countries where Armenia has potential for expansion of export are USA, Turkey, China, Japan, United Kingdom, France, Italy, United Arab Emirates, Hong Kong, and Saudi Arabia.

Key words: trade potential, export, gravity model, geographical structure of export.

BUDGET IMPACT UNDER THE CONDITIONS OF AN ECONOMIC CRISIS

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The interrelations between state budget and private sector under the conditions of economic decline have to be viewed more and more carefully in order to formulate precise assessments and measures about the opportunities for relieving the negative consequences on the economy. The precise analysis, rapid and adequate steps in this field can guarantee preservation of financial stability in Republic of Bulgaria, restoration of economic growth and improvement of business environment. The processes of distribution, redistribution and movement of capitals, goods and people, reasoned by the world economic crisis and participation of the national budgets in them, define the topic actuality.

1. Peculiarities of budget impact – information influence and role of the good government management

The impact of the state budget on the structures of private business is multisided. For the purposes of the present analysis it can be brought to:

- Informational impact;
- Influence of the good budget practice (good management) in the public sector;
- Impact of the specific budget parameters.

The informational impact of budget on private sector follows from the characteristics of the country’s basic financial plan. The state budget is not only a technical instrument, documenting revenues and offering possibilities for making expenditures, but it is also the most important political and economic act of executive power for the fiscal year. It reflects the government’s views on the socio-economic state of public and private sectors. At the same time, the state budget is a declaration of government for its economic (incl. fiscal) purposes and from these positions it reflects the social and economic priorities of the ruling political power. The budget renders value assessments of the government’s future plans and is a consequence of similar assessments in the past. Viewed as a basic financial plan of the country, the budget makes it possible to determine and outline the problems of individual economic subjects (financial institutions, commercial enterprises, households) as well as the problems at macro level.

The above-shown basic characteristics of budget emphasize its role of a reference point regarding the future dynamics of important macroeconomic indicators, incl. unemployment, price level dynamics, rate of economic growth, fluctuations of currency rates, tax burden. Exactly in that sense the budget and budget policy perform informational impact on the behaviour of private sector structures. Logically the restrictive budget (oriented to achieving budget equilibrium or surplus under conditions of recession) is a clear signal for unfavourable economic environment, for lack of positive prospects and it predictably results in reducing the activity of private subjects. In contrast – a budget, oriented to maintaining a reasonable deficit and not risking the financial stability, under conditions of recession ensures conditions for future recovery and aids the improvement of business climate and the expectations of private subjects. Therefore, budget management is an important and responsible process.

Budget is an important document for ensuring transparency, accounting and thoroughness as regards the economic intentions and activities of the state power. From these positions the studied financial document stands out as an instrument for imposing the principles of *good management (good budget practice) in public sector*. To give thorough information about the intentions and activities of the public power is of primary importance for adequate management. By giving detailed description of the proposals for expenses the budget lets the Parliament and society (incl. private sector structures) set the amount and trends of spending public resources. The detailed information about the revenue part of the analyzed financial document, on its part, provides data about sources of funds. Therefore, budget is directly related to guaranteeing transparency of governmental management. Another essential issue concerns the accounting in