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The Impact of Fiscal Policy Measures on the Financial Autonomy of Rural Municipalities: Case of Lithuania

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Abstract

The relevance of this research is based on the implications of low financial autonomy of rural municipalities referred to by the researchers, economists, and policymakers. The phenomenon of financial autonomy of municipalities is widely declared in the legal documents of the European Union (EU), analysed by the researchers comprehensively, including identification of the issues and proposal of the solutions. Nonetheless, it is not ensured sufficiently in practice. EU's Common Agricultural Policy emphasizes the importance of rural development on the development of country's regions, and researchers emphasize the direct impact of the fiscal policy measures applied by the country on the financial autonomy of the local governments. The research aims to assess the impact of fiscal policy measures on the financial autonomy of rural municipalities in Lithuania. The research findings have revealed the dependence of the local governments on the central government, which is indicative of the poor possibilities for the rural municipalities to redistribute funds at own discretion and form the regional policy. The research has identified the fiscal measures determining the poor financial autonomy of the rural municipalities in Lithuania as well as the reasons behind the difference between the municipalities.

Keywords: Fiscal policy measures; taxes; financial autonomy; rural municipality

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Introduction

The research findings have revealed the dependence of the local governments on the central government, which is indicative of the poor possibilities for the rural municipalities to redistribute funds at own discretion and form the regional policy. The phenomenon of financial autonomy of municipalities is widely declared in the legal documents of the EU, analysed by the researchers comprehensively, including identification of the issues and proposal of the solutions. Nonetheless, it is not ensured sufficiently in practice. EU's Common Agricultural Policy emphasizes the importance of rural development on the development of country's regions, and researchers emphasize the direct impact of the fiscal policy measures applied by the country on the financial autonomy of the local governments. Main fiscal policy measures: taxes received by the state as revenues from natural persons and as corporate taxes and government *expenditure*, which, if properly allocated, strengthen the domestic economy, and are related to allocation, redistribution, and stabilization functions. It is therefore important to analyse the effect of fiscal policy measures on the financial autonomy of rural municipalities.

It is noteworthy that the model of inter-budgetary redistribution of revenues used in Lithuania does not promote financial autonomy of rural municipalities, which determines demographic issues in rural regions, higher unemployment rate, the considerably lower income of the population, and other regional policy issues. The empirical studies have shown that all Lithuania's rural municipalities depend on the grants allocated by the central government, and all the municipalities are recipients of the funds and receive additional funds from four donor municipalities by redistribution. The empirical studies have revealed that, in the recent ten years, 13 to 46 % of the donor municipalities' revenues are redistributed to other municipalities in the country.

Different weights are placed on different types of revenues, i.e. tax, non-tax revenues and grants, in the budgets of Lithuania's rural municipalities. According to the researchers, taxes form the financial and economic foundation of a municipality, as they are the instrument of not only financial policy but also solidarity. Tax revenues are often referred to as "own" taxes of local governments intended for implementation of autonomous municipal functions. Meanwhile, the high degree of grants in the general revenue structure also signals relatively lower financial autonomy of the municipality. In the U.S., grants account for the third of financial resources of local municipalities, in the European countries the share ranges from the third to half of the municipal budgets, e.g., the United Kingdom – 50 %, France – 40 %. Germany and the Nordic countries are an exception, as the local government budgets are formed almost only of the taxes collected by the respective local governments. Hence, the issue of generation of rural municipality revenues reflecting the impact of fiscal policy on financial autonomy is one of the world's greatest challenges regarding local governments.

The theoretical concept of the research is based on the links between the fiscal policy measures and financial autonomy of local government. The identified field of research problems:

- Which fiscal policy measures increase the financial autonomy of rural municipalities?
- Adjustment of which taxes has a positive effect on the financial autonomy of rural municipalities?
- Which indicators show the links between the fiscal policy measures implemented by the country and financial autonomy of rural municipalities?

In light of the complexity and volume of the issue, for the present research, it has been decided to analyse and present one of the fiscal policy measures – revenue and the manifestation thereof in management of tax, non-tax revenues and grants, thereby revealing the dependence (*in revenue collection*) of financial autonomy of municipalities on the fiscal policy implemented in the country.

Research problem aims to investigate what are the fiscal policy measures used in Lithuania influence the financial autonomy of local government, and which indicators and methods should be used to assess it?

The research aim is to assess the impact of fiscal policy measures on the financial autonomy of rural municipalities in Lithuania following the analysis of the theoretical aspects related to the financial autonomy of a local government and fiscal policy phenomena.

Therefore, research objectives are defined in a twofold manner: (i) to provide the rationale behind the definition of financial autonomy of a local government and its theoretical foundation, i.e. fiscal policy measures, and (ii) to perform the indicator analysis for the financial autonomy level of rural municipalities, including assessment of the impact of the fiscal policy measures used.

Research object: the effect of fiscal policy measures on the financial autonomy of rural municipalities in Lithuania.

Fiscal policy measures and financial autonomy of local government units

The study builds on the following theoretical grounds: the theories of fiscal policy, fiscal decentralization, and regional development. The theories of macroeconomics associate *fiscal policy* with the national government's activity in decision making concerning the mobilization of financial resources and expenditures. For mobilization of national resources and expenditure planning, a government employs various fiscal policy measures covering decisions on state budgetary revenues and expenditures, public debt management, intergovernmental transfers, sale, lease or purchase of public assets, borrowing from or lending to companies or financial institutions, state pensions and state pension funds, other social payments. Moreover, *fiscal policy* is related to the activity which considerably influences the state funding capabilities, for example, determination of the rates on the utility services provided by public companies, provision of state guarantees for loans, the release of companies from certain taxes. Moreover, fiscal policy is deemed to cover the procedural issues of public finance management, maintenance of the respective legal base, definition of the operations of public authorities, and their competence in day-to-day fiscal decision making.

Provisions of economic theories suggest the level of financial autonomy of a local government is dependent on the fiscal policy measures applied, i.e. on the revenues received/earned and on the rational expenditure management. Appropriate and correct application of these measures determines the sustainable financial environment and value-added created at the local authorities.

Taxes as one of the fiscal policy measures have a particular effect on the formation of financial autonomy of a local government. Taxes have an important role in generating the revenue necessary for funding the local economic and social development policies. Moreover, taxes may influence the decisions by entities of the economy over 1) labour-leisure choices, 2) choice of the consumption structure, 3) choice of the consumption and saving, 4) selection of the production factors, 5) selection of the production methods, 6) choice of the place of residence (e.g. the

state), and several other issues (family formation, etc.), which are difficult to measure and assess in practice (Klyvienė, 2014). Tiebout (1956) was one of the first researchers to emphasize the issue of tax competition. The model of his political theory covers the framework of the goods and services provided by the local authorities, the State, or the public sector as well as tax competition which prompts the individuals to settle in the locations offering the tax-to-public good ratio that has the best correspondence to the combination desired by the economic entity. According to the theory by Tiebout (1956), communities seek to attract a potential workforce (taxpayers), but up to a certain boundary, which allows for minimization of the costs of provision of public goods. Hence, the key fiscal policy measure is the taxes received by the State as revenue utilizing natural persons and company taxes and the State expenditures, which, if appropriately allocated, strengthen the domestic economy.

Common consensus has been reached in the scientific literature, namely, that the governments of poorly developed countries implement procyclical fiscal policy, which is determined by 1) political limitations (presidential/parliamentary system; weakness/strength of the legal and political infrastructure; instability of the tax system; inadequate enforcement of the laws (corruption); instability and dispersion of the authority power); 2) social polarization of preferences; 3) limitations of the financial markets (borrowing limitations (financial openness and depth of local markets; market imperfection (as well as an insufficient variety of financial instruments); the level of financial integration) (Sinevičienė & Vasiliauskaitė, 2010). It has been found in the series of scientific research works that the procyclical character of the Lithuanian fiscal policy is determined by political limitations. This situation suggests that the fiscal policy measures employed in Lithuania are not yet sufficiently directed towards the formation and assurance of the sustainability of public finance. This has an impact on the autonomy of a local government as well as the formation of its inner financial potential.

Activities of a local government should cover the effective management of public finance and the use of local resources. Local authorities can promote the economy utilizing budgetary instruments, including assigned investment expenses. The level of local financial autonomy is one of the key determinants of the scope and standard of the public services provided to the residents. Efficiency and effectiveness of the local public finance determine the changes in infrastructure present in the rural areas and are somewhat decisive in terms of the rural development guidelines (Standar & Kozera, 2019). It should be noted that sustainable financial resources form the foundation of the local socio-economic development, in particular, where rural areas are concerned. This is also a basic category considered in the financial stability analysis of local government units (Luczak et al., 2018).

It has also been found in different research works that, despite the unquestionable benefit, local fiscal policy may limit the development prospects for the local government units in case of a decrease in the budgetary revenues (Oates, 2005).

Hence, the financial autonomy of local government units is the key determinant of stable local development. High level of autonomy ensures sustainable local development and meeting of the needs (Kozera & Glowicka-Woloszyn, 2016).

As a consequence, the phenomenon of financial autonomy is usually referred to by the researchers (Beer-Tóth, 2009; Cigu, 2013, 2014; Davulis, 2006, 2007; Friedrich et al., 2003, 2004; Głowicka-Wołoszyn & Satoła, 2018; Jemna et al., 2013; Kopanska, 2017; Mosteanu & Lăcătu, 2008; Oulasvirta & Turata, 2005, 2009; Psycharis et al., 2016; Satoła et al., 2019; Scutariu & Scutariu, 2015; Slavinskaitė, 2017; Standar & Kozera,

2019; Voinea, 2008) as the consequence of the phenomenon of financial decentralization. Different definitions are available for financial autonomy (see Table 1).

Table 1

Financial autonomy of a local government: definition

Financial autonomy is...

Availability of financial resources; their autonomous management; assurance of income-expense balance at the local authorities.	Autonomous management of tax base and rates at the local authorities.	The autonomous budget formation, implementation, and enforcement of decentralized authorities.
Beer-Tóth, 2009; Jemna et al., 2013; Psycharis et al., 2016; Scutariu & Scutariu, 2015; Voinea, 2008.	Aristovnik, 2012; Friedrich et. al., 2004; Hajilou et al., 2018; Ladner & Keuffer, 2018; Mclure & Martinez-Vazquez, 2000.	Aristovnik, 2012; Beer-Tóth, 2009; Boex, 2001; Davulis, 2006, 2007.

Source: made by the author following on the authors listed in the table

To sum up the theoretical definition, financial autonomy of a local government may be defined as the management of the combination of expenses, revenues and budget elements, which determines the ability of local authorities to allocate resources, develop local economic and social wellbeing, and create value-added (made by authors).

It has been determined based on the scientific literature that the phenomenon of financial autonomy of local government units and its factors are closely related to the theories of regional growth and development. From the perspective of local authority processes, the theories of the use of endogenous (inner) potential defining the internal determinants of the level of financial autonomy of local government units are particularly important. The internal factors form a sustainable environment for financial autonomy of the local government. Based on the findings in the scientific literature, the external and internal determinants of financial autonomy be closely interrelated. Hence, a change in one factor often leads to changes in other factors. The determinants of financial autonomy may be classified as qualitative or quantitative for further use in the empirical studies assessing financial autonomy (see Table 2).

Table 2

Financial autonomy of a local government: determinants

Quantitative	Qualitative
Political and legal indicators (amount, base, tariffs of local taxes)	Political stability, level of legal regulation, tax benefits, corruption, bureaucratic efficiency, special economic zones
Economic indicators (GDP created by individual sectors of the municipality, value-added created at the municipality, foreign investment, domestic investment, entrepreneurship indicators, number of small, medium and large companies).	Local economy structures; Impact of the business sector on the municipality

Demographic indicators (population size, population density per sq.m; population growth rate per 1,000 people; net migration rate per 1,000 people)	Municipality area and geographic location
Social indicators (unemployment rate as a share of the total working-age population (%); share of researchers in higher education (%); the number of foundations, associations and social organizations per 1,000 people; population share employed in industry, construction and service sector per 100 working-age people; social support recipients as a share of the total population (%), employment rate, unemployment, employment level; minimum/maximum and average wage at the municipality)	The human capital of the municipality (indicators on education, qualification, quality of education and studies, entrepreneurship of the society, and labour force skills) The situation on the labour market (professional knowledge in specific branch, managerial and entrepreneurial competencies, labour force structure) Distribution of the infrastructure, living conditions of the population

Source: made by the author following Mosteanu and Lăcătus (2008); Oulasvirta and Turala (2005, 2009); Voinea (2008); Cigu (2014); Kopanska (2017); Kozera et al., (2017); Rudytė et al. (2018); Głowicka-Wołoszyn and Satota (2018); Łuczak et al. (2018).

Methodology

To analyse the effect of fiscal policy measures on the financial autonomy of rural municipalities, it is reasonable to substantiate the economic manifestation of financial autonomy of a local government as a multidimensional phenomenon impossible to measure directly. It can be described using various indicators which may thereafter be used as the basis for the assessment using a synthetic measure. Whereas the present empirical study has just been launched and will serve as the basis for the development of the model for improvement of financial autonomy of Lithuania's rural municipalities, a lot of empirical calculations and assessments are still at the initial stage of assessment and are to be continued. Presentation of single financial indicators is not a comprehensive assessment of the complex phenomenon of financial autonomy. It is also clear that objective assessment is problematic when analysing a large number of objects, i.e. rural municipalities and, at the same time, a large number of the determinants characteristic of the phenomena such as fiscal policy measures and their effect on financial autonomy.

Hence, the present study delivers a share of initial results from the ongoing integrated feasibility study on the assessment and improvement of the financial autonomy level of rural municipalities. General scientific research methods have been used to substantiate the research problem: scientific literature analysis, synthesis, descriptive statistics. Data by Statistics Lithuania (the Department of Statistics of the Republic of Lithuania) for the period 2009–2018 on the revenues and other economic indicators of Lithuania's rural municipalities were used for the empirical study (Statistics Lithuania, 2020). To address the problem, the indicators describing the level of financial autonomy of 37 Lithuania's rural municipalities were analysed. Whereas the present empirical study deals with one of the fiscal policy measures, i.e. the revenues, the key revenue indicators allowing for assessment of the financial autonomy of rural municipalities and used in the empirical studies conducted previously by the researchers have been selected. The indicators have been selected according to the following criteria: (i) the indicator has been employed in

other research works by more than one researcher; and (ii) statistical data collected and provided regularly are available for calculation of the indicator.

The indicators providing an only fragmented assessment of the financial autonomy of rural municipalities in the short term have been dismissed due to their failure to assure continuity of the research, or no data are available for calculation of the indicators. Researchers (Głowicka-Wołoszyn & Satola, 2018; Kozera et al., 2017; Łuczak et al., 2018; Standar & Kozera, 2019, and others) employ different sets of indicators for the assessment of financial autonomy of rural municipalities. Key indicators describing the level of financial autonomy in rural municipalities are the indicator of the level of own revenue (%), financial autonomy 1st-degree index (%), financial autonomy 2nd-degree index (%), fiscal asset index, PIT per capita, etc. Hence, the present article analyzes and presents partial revenue indicators of financial autonomy.

Whereas the present empirical study analyzes the financial autonomy of local governments on the municipal level, the rural municipalities are an appropriate level for local fiscal policy formation, as they are characterized by the local government and budget as well as capacity to act independently. The municipalities were classified as rural based on the quantitative limits proposed by the Organisation for Economic Co-operation and Development (OECD): a municipality is considered rural if more than 50 % of its population live in rural type settlements, and semi-rural, if 15 to 50 % of its population live in rural settlements. According to these quantitative limit criteria, a group (sample) of rural municipalities consisting of 37 municipalities was formed from 60 municipalities present in Lithuania.

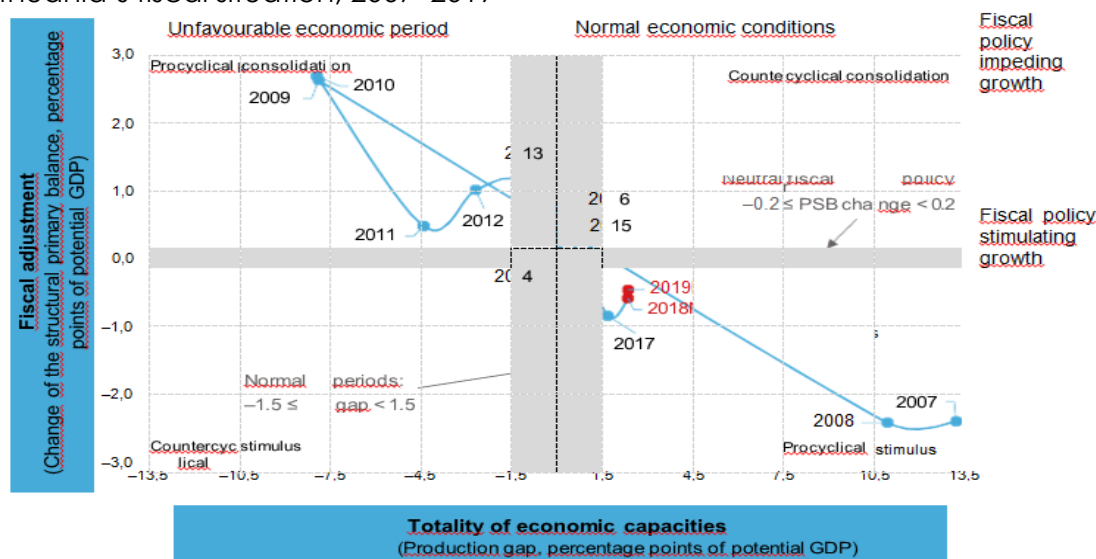
Results

To address the problem raised, the empirical study is conducted for the case of Lithuania. According to the fiscal authority, Lithuania's fiscal policy is improving its direction but remains procyclical. According to the fiscal authority, procyclical fiscal policy prevailed in Lithuania in 2007–2017 (see Figure 1).

This means that adequate fiscal buffer was not developed when the economy was doing well so that countercyclical stimulus could be used during an economic downturn. In 2017–2019, the fiscal direction is in the same quadrant of the fiscal situation chart as in 2007–2008, but current macroeconomic imbalances are smaller than in the pre-crisis years, even though certain economy warming up signals are present.

In recent years, the issues and prospects, as well as threats faced by rural areas in the regions in the course of their development, have been becoming the centre of attention in the economy domain. The relevance of these studies is also demonstrated by the fact that analysis and comparison of financial autonomy of the municipalities of individual countries are performed, but there is lack of empirical studies revealing the situation of financial autonomy of a certain country's rural municipalities and the possibilities for its improvement in the context of fiscal policy.

Figure 1
Lithuania's fiscal situation, 2007–2019



Source: Ministry of Finance of the Republic of Lithuania (2019), European Commission, fiscal authority calculations

At present, the territory of the Republic of Lithuania has 10 counties and 60 municipalities, of which 49 are district municipalities and 11 – city municipalities. The administrative units of the territory of the Republic of Lithuania consist of residential areas classified as either urban or rural residential areas. Urban residential areas include cities, while rural residential areas include towns, villages, and single homestead settlements. At present, the average population of the Lithuanian municipalities is 55,965 (according to the year 2017 data by Statistics Lithuania). Rural municipalities in Lithuania account for 2/3 of the country's territory. In the present study, the revenue indicators as the fiscal policy measure describing financial autonomy of 37 rural municipalities of the Republic of Lithuania are analysed.

In Lithuania, the revenues of the local government units are, in general, classified into tax revenues, non-tax revenues, and state budget grants (see Table 3).

Table 3
Budgetary revenues of the municipalities

Tax revenues	Non-tax revenues	Grants from the State budget
<p>Personal income tax (PIT): PIT (received from the Tax Authorities); Natural persons' income tax for levelling out the differences in the municipal expenditure structure; PIT for levelling out the tax revenues.</p> <p>Property taxes: Land tax; Immovable property</p>	<p>Property revenues: The rental fee for state-owned land and bodies of water belonging to the State Water Fund; Tax for national natural resources; Deposit interest; Dividends.</p> <p>Revenues from goods and services: Revenues from premise rental; Revenues from random services;</p>	<p>For ongoing goals: Special targeted grant; For the implementation of governance functions; For funding the student basket; Compensation of the general grant; For capital formation.</p>

tax;	Payments for provision at
Inherited property tax.	educational, social security
Taxes on goods and services:	and other bodies;
Environmental pollution taxes;	Revenues from fines and
State levies;	confiscation;
Local levies.	Transferred funds, other than
	grants;
	Other non-tax revenues.

Source: Authors' work

One of the key sources of revenues of the local government units is the personal income tax (PIT). In the period 2009 to 2014, the PIT of Lithuania's rural municipalities was very low, with the average 271 to 292 EUR per capita in all the municipalities in the period analysed. The research data show the increase in PIT per capita starting with 2014. In the period analysed, the PIT per capita in rural municipalities increased by 1.9 on average. The increase was determined by the amendments related to the economic and social factors, to the Law on the Methodology of Determination of Municipal Budgetary Revenues of the Republic of Lithuania.

When classifying the municipalities by financial autonomy level based on PIT per capita in 2018, it has been noticed that only 3 municipalities (8 %) formed the highest level group, where PIT per capita was EUR 601 and more; the majority of municipalities (68 %) formed the group of mid-range municipalities, where PIT per capita was EUR 501 to 600, and the fourth of the municipalities (24 %) formed the group with EUR 401 to 500 PIT per capita.

PIT share (%) in the total municipality revenues. At present, the PIT of Lithuanian rural municipalities accounts for almost half of their total budget. When classifying the municipalities by PIT share (%) in 2018, it was noticed that PIT accounted for 50 % and more in the budgets of 16 municipalities (43 %), while in the remaining municipalities, the share of PIT in the total municipality revenues ranged from 39 to 50 %. This indicates that all the rural municipalities are very dependent on the additional PIT received by redistribution.

Starting with 2017, the PIT accounted for the largest share (83 % on average) in the tax revenue structure of Lithuania's rural municipalities. Table 4 shows that the share varies. Variation of the tax as the revenue is determined by the fact that the support is granted to the municipalities, where, following the transfer of the share determined in the Annex to the Law on the Methodology of Determination of Municipal Budgetary Revenues, the PIT per capita is still lower than the country's average. Whereas the legal acts of the Republic of Lithuania do not establish any clear criteria to determine and amend the PIT shares for the municipalities, the issue causes not only the legal issue but also the issue of social inequality. This suggests that the situation also determines the lack of opportunities for the development and enhancement of financial autonomy of municipalities. Starting with 2014, all the rural municipalities analysed have been granted with 100 % of the PIT.

Municipality's revenues per capita, EUR. In the period analysed, 2009–2018, own revenues of Lithuania's rural municipalities increased by 96 % on average. When classifying the municipalities by their revenues per capita in 2018, 3 groups of municipalities were identified: Group 1 – up to EUR 1,000 per capita; group 2 – EUR 1,001 to EUR 1,500; group 3 – EUR 1501 and more. Only 1 rural municipality was classified as high-level financial autonomy (3 %), and the remaining rural municipalities were classified as medium financial autonomy.

Table 4

Summary descriptive statistics of the indicators, describing the level of financial autonomy in Lithuania's rural municipalities (N=37) in 2009-2018

Characteristics / indicators	1st-degree financial autonomy indicator (%)	2nd-degree financial autonomy indicator (%)	Own revenues per capita, EUR	Transfers per capita, EUR	PIT per capita, EUR	Fiscal asset indicator
Average	38	94	550	317	228	265
Min value						
Average	53	96	1226	434	534	587
Max value						
Average	46	97	759	402	320	355
Standard deviation	7,91	6,23	229,1	75,8	99,9	117,4
Variation ratio, %	17,2	0,82	30,1	18,8	31,2	33,0
Median	46	96	680	406	289	335
Skewness	0,80	1,82	0,94	0,24	0,99	0,96

Source: Compiled by authors based on data from the Statistics Lithuania (2020)

In general, the characteristics of descriptive statistics reveal the following effect of the fiscal policy measures on the trends of financial autonomy in Lithuania's rural municipalities in the analysed 10-year period from 2009 to 2018:

1. The share of own revenue in the total revenue (1st-degree financial autonomy indicator, %) had an upward trend, increasing by 46 percentage points on the average;
2. The share of own revenue and subsidies in the total revenue (2nd-degree financial autonomy indicator) increased considerably (increase by 97 percentage points on the average);
3. The share of own revenue per capita reveals the situation, where the difference between less affluent municipalities and affluent municipalities is 2.2-fold. On the other hand, the high value of the indicator (EUR 1126) was registered in one municipality only, and 59 % of the municipalities did not exceed the minimum level (EUR 550), while the median of own revenue per capita was EUR 680;
4. The change of PIT per capita differed by 2.3 times between the municipalities. This shows that allocation of the PIT is different for each rural municipality and does not encourage less affluent municipalities to undertake the measures to increase it, because competition for the tax is a slow-acting instrument.
5. The results of the empirical study show that Lithuania's rural municipalities remain rather heterogeneous in an economic and social sense.

The results support the importance of the transfers into the revenue structure of rural municipalities and, at the same time, high dependence of the local governments on the state budget, signalling unfavourable conditions for the development initiatives, multifunctional growth, or progress in local self-regulation.

The study enables identification of positive initial changes in the level of development of Lithuania's rural areas. It is also important that, with the general financial level improving, progress reducing the gap between the underdeveloped and most developed municipalities is made. The calculations show that the highest levels of progress are characteristic of the rural municipalities located in proximity to Lithuania's major cities, i.e. donor municipalities: Vilnius, Kaunas, Klaipėda.

Discussion

The fiscal policy measures and their effect on the development of rural areas in the regions are different across different countries of the European Union. Both researchers and political decision-makers have been taking a particularly active interest in the topic in recent years. Most often, the researchers (Darvas, 2010; Ilzetzi & Végh, 2008) provide the empirical study findings supporting the procyclical character of application of the fiscal policy measures in the developing countries, but, at the same time, raise the question as to whether this is truth or fiction. Considering the assessments of the procyclical character of the fiscal policies in the developing countries and, at the same time, the complicated and multidimensional nature of financial autonomy of local governments as a phenomenon based on the allocation, redistribution, and stabilization of financial resources, the lack of integrated empirical studies dealing with the effect of the fiscal policy measures on the financial autonomy of local governments can be noticed.

Assessment of the character and scope of financial autonomy of local governments is usually discussed as a criterion of progress in the country's democratic processes in terms of their legal, organizational, economic, and political dimension. Nonetheless, the researchers (Głowicka-Wołoszyn & Satółta, 2018; Jemna et al. 2013; Kozera et al., 2017; Kozera & Głowicka-Wołoszyn, 2016; Łuczak et al., 2018; Satółta et al., 2019; Scutariu & Scutariu, 2015; Standar & Kozera, 2019) usually provide differing assessments of the financial autonomy, its manifestation and level, and ambiguities between the results generated can usually be found. It should be noted that the issues of financial autonomy of rural municipalities are the most relevant in the context of the local government units of the Eastern European countries. It could be assumed that the relevance is determined by the decentralization processes, European integration processes, regional disparities between the EU countries, divergence between the Western and Eastern countries of the EU, issues of the EU's territorial cohesion, and other aspects.

Despite the considerable regional non-proportionalities in Lithuania, a similar situation may be noticed in other countries as well. Further, the discussion issues of the empirical studies assessing the effect of the factors of Poland's political, economic, social, geographic environment on the financial autonomy of rural municipalities, as well as the possibilities for promotion of financial autonomy of rural municipalities are presented.

For example, in their most recent empirical studies, researchers Standar and Kozera (2019) discuss whether the scientific literature contains references to the effect of local finances on the socioeconomic instability. Instead, the studies focus on the determinants of the financial situation of the local government units. Hence, in the assessment of financial autonomy of the municipalities of Greater Poland (Wielkopolska), the researchers discuss that it is the suburbanization, i.e. movement of the population for life from cities to suburbs, that largely prompts transition of the majority of the rural municipalities surrounding the major cities to other functions and growth of the level of their socio-economic development. Hence, highly rapid rural development in the municipalities located around the region's major city can be noticed. Nonetheless, the researchers have failed to fully analyse the role of local finances in the fight against socioeconomic inequality of the rural municipalities, thereby creating the basis for further analysis of the scope and conditions of the phenomenon of financial autonomy (Standar & Kozera, 2019).

In the assessment of the financial autonomy of rural municipalities, other researchers (Satółta et al., 2019) compare, for example, rural municipalities of Poland to municipalities of other administrative types (by the level of personal income per

capita, where the level of personal income per capita in the municipalities of the high financial level is EUR 749.2, medium financial autonomy level – EUR 274.6, low financial level – EUR 56.4) and present the finding that 60% of the rural municipalities are characterised by the medium-low or low level of financial autonomy. This means that they are incapable of collecting the revenues collected by other municipalities. Hence, their financial condition and capacity to implement their tasks depend on the national budget allocations. This creates a considerable issue in terms of their capacity to maintain financial stability, as the revenues transferred due to the low level of the own revenue potential account for more than 80 % of their annual budget. Hence, the researchers state that financial autonomy of the Polish rural municipalities remains dependent on the local entrepreneurship and local economic conditions, including geographic location concerning the urbanized centres (Satota et al., 2019).

Other researchers (Łuczak et al., 2018) assessing the effect of the factors of socio-economic development of the Greater Poland municipalities on the financial autonomy of the local government units, have confirmed in their empirical study that the following factors had the driving effect on the improvement of the level of financial autonomy: the share of economic operators with 50 or more employees; the share of economic operators with 10 to 49 employees; the number of hotel places (beds) per 1,000 residents. On the other hand, such factors as the official level of unemployment and the share of rural residents provided the suppressing effect (Łuczak et al., 2018).

In their empirical studies, Kozera and Głowicka-Wołoszyn (2016) have revealed that the municipalities of high financial autonomy are largely concentrated in the metropolitan area of major cities creating clusters and covering not only the first but also the second and the third circles around the major cities. During the research, clusters of low financial autonomy were also found in particularly forestry and sparsely populated municipalities, as well as agriculture-oriented municipalities with a large number of residents employed in individual farms and characterised by low economic activity. Low financial autonomy of the municipalities is explained by considerable distance to the central cities, poor demographics (low population density, low net migration) and relative economic inactivity. Nonetheless, the authors discuss whether the findings on the Greater Poland municipalities could be applied to the whole country or the strength of the effect of other central cities on the financial autonomy of the neighbouring municipalities. These are the issues requiring further research inquiry (Kozera & Głowicka-Wołoszyn, 2016).

All researchers claim that financial autonomy does not mean that local public tasks are funded from own funds of the local government (independent funding). They point to the importance of the creation of a funding system, where local government units could mobilize financial resources corresponding to the number of expenses incurred in the implementation of their tasks. Hence, further comprehensive empirical studies are required for the assessment of sustainable financial autonomy of rural municipalities.

Conclusion

Financial autonomy is referred to as a complex, multidimensional economic phenomenon based on the provisions of the fiscal policy and decentralization theories related to financial resources, their allocation, redistribution, and stabilization. In economic terms, financial autonomy is characterised as the combination of interacting local expenditure, revenues and budget autonomy

elements, where the law and possibilities are manifested as the key elements in each of the three financial autonomy categories.

The researchers have identified key factors of development of financial autonomy of municipalities, such as improvement of the resource allocation, establishment of the local tax institute, development of the borrowing possibilities for the municipalities, strengthening of the financial control system, formation of the directions of smart financial autonomy aimed at maintenance the qualified workforce in the rural municipalities, creation of new jobs, improvement of the business environment to ensure sustainable development of rural municipalities. Nonetheless, the identified factors of financial autonomy remain rather theoretical and are often poorly implemented in practice.

The conducted analysis of the links between the fiscal policy implemented in Lithuania and financial autonomy of rural municipalities has provided the following findings:

- Collection of revenue in Lithuania's rural municipalities is determined by the trends of collection of population income and property taxes;
- Agricultural business prevails in rural municipalities and was subject to personal income and property tax benefits before 2018, which determined the low financial autonomy of the municipalities (incentive fiscal policy);
- It has been identified that the limiting fiscal policy was implemented in Lithuania since 2018 towards taxation of agriculture, when the agricultural business had been included into the general taxation system, and the majority of personal income tax and land tax benefits were abolished.
- Analysis of revenues of rural municipalities in the period 2009 to 2018 has shown that the average share of "own" taxes of the municipalities in the total revenues varied from 39 % to 53 % in the period analysed.
- Personal income tax (PIT) accounted for the largest share in "own" revenues of rural municipalities. PIT is different depending on the rural municipality. Current municipality budget formation system shows the situation where municipal revenues per capita are distributed very unevenly (from EUR 461 (Y2018) per capita in Klaipėda district municipality to EUR 642 (Y2018) in Zarasai district municipality. Hence, the research results reveal that the fiscal policy redistribution function in Lithuania is defective and does not promote financial autonomy and economic well-being of municipalities, because support is granted to the weaker municipalities, and they receive more PIT redistributed. If not for the PIT redistributed, the municipalities which attract investors, help create jobs would have retained more funds.
- Further research is needed and is to be performed in the future to reveal the comprehensive situation of the object analysed which may influence the creation of jobs, local employment rates, tax base, revenue, infrastructure, economic growth, and other areas at the rural municipalities.

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