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Theoretical Aspects of Government Financial Regulation: Clarification of Concepts, Classification of Forms, Methods and Instruments

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ABSTRACT

The relevance of this study stems from significant changes in the role of the state in addressing crises, which have occurred with increasing frequency since 2008 — the year of the global financial and economic crisis — particularly in the Russian Federation. The variety of definitions for the term "government financial regulation" found in both domestic and foreign sources has led to a number of theoretical contradictions, hindering the development of this field of study. The aim of this paper is to refine the definition of the concept and to develop a classification of its forms, methods, and instruments. The research applies methods of analysis and synthesis of academic literature, regulatory acts, and medium-term financial planning documents of the Russian Ministry of Finance. The author clarifies the concepts of "finance" and "government financial regulation", distinguishes between financial regulation and fiscal, tax, customs-tariff, monetary, and broader economic policy and regulation, and proposes a classification of instruments and their corresponding forms of financial regulation — direct and indirect. A methodology for differentiating these forms and aligning them with specific areas and tools of government financial regulation is also proposed. The article includes a graphical model illustrating the distinctions between financial and economic regulation by the state. The findings can be used by practitioners to improve the efficiency of financial flow management and by researchers to enhance the effectiveness of scientific work in this domain.

Keywords: government financial regulation; economic policy; methods and instruments of regulation; direct and indirect forms; budgetary regulation; macro prudential regulation; monetary regulation; finance

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INTRODUCTION

The principal focus of scientific discussions on state regulation of socio-economic processes is determining the optimal state involvement in the economy within the framework of which it is possible to achieve the best level of economic growth. In practice, each country solves this problem in its own way, primarily guided by national development objectives (see *Fig. 1*).

In economic models of different countries, any state is represented by expenditure accounting for 20–70 per cent of GDP. On average, the state's share of the economy is between 40–45 per cent. Based on the data in *Fig. 1*, the budget system expenditures of Russia were slightly below average between 2007 and 2022, which formally indicates its moderate share in the domestic economy. However, it is worth noting, that the size of the public sector, including state corporations and joint-stock companies in which the state holds stakes, increases the actual share of the latter in the Russian economy up to the level exceeding 40% of GDP [1]. Periodically, the fact triggers scientific and practical discussions, related to the potential growth in the efficiency of the Russian economy caused by denationalisation, privatisation campaigns, the development of market institutions and anti-corruption measures [2, 3].

The aim of the given research is to clarify the concept of "the state financial regulation of the economy" (SFR) and its classification, including the associated forms, methods, and tools.

METHODOLOGY

The author's approach to clarifying definitions of the terms "finance" and "financial regulation" is based on a whole set of classical scientific methods of research, including the analysis and synthesis of sources, normative legal acts and other official documents, including: (1) university-level scientific and educational literature, monographs and dissertations for academic degrees; (2) reference materials, including etymological and defining dictionaries. (3) contemporary systems of financial management in Russia, such as the study of the functional responsibilities of the Ministry of Finance of Russia's divisions and the content of the financial regulation system published in official websites. (4) transcripts and video footage of public speeches made by state officials, which are directly in charge of financial management operation in Russia.

Based on the results obtained, the author proposes clarified definitions of the concepts under study, as well as a graphical model of "the state financial regulation of the economy" (SFR) and a classification of its tools, methods and forms.

RESULTS

The role of the state in the economy and rationale for the state financial regulation

Is it possible to do without the state participation in economic regulation completely? Based on the experience of economic doctrines and the transition from unregulated to regulated market relations, we can definitely say that a regulator is not only viable, but also vital for developed economies. *Fig. 2* shows the place and role of the main subject of the state financial regulation of the economy (SFR), whether that be the state (the subject of macroeconomics) or public-law entities (the subjects of the theory of SFR), in the national system of economic relations.

In contrast to economic and macroeconomic theory, the classical theory of public finance singles out three main functions of the state: allocative (or distributive) providing the availability of public goods; stabilising, based on ensuring high employment, price stability, and economic growth; and redistributive, consisting of adjusting the existing distribution of income and wealth to ensure a socially fair level [4]. In compliance with the abovementioned aspects, the state financial policy is closely related to the resolution of issues of the state financial regulation of the economy.

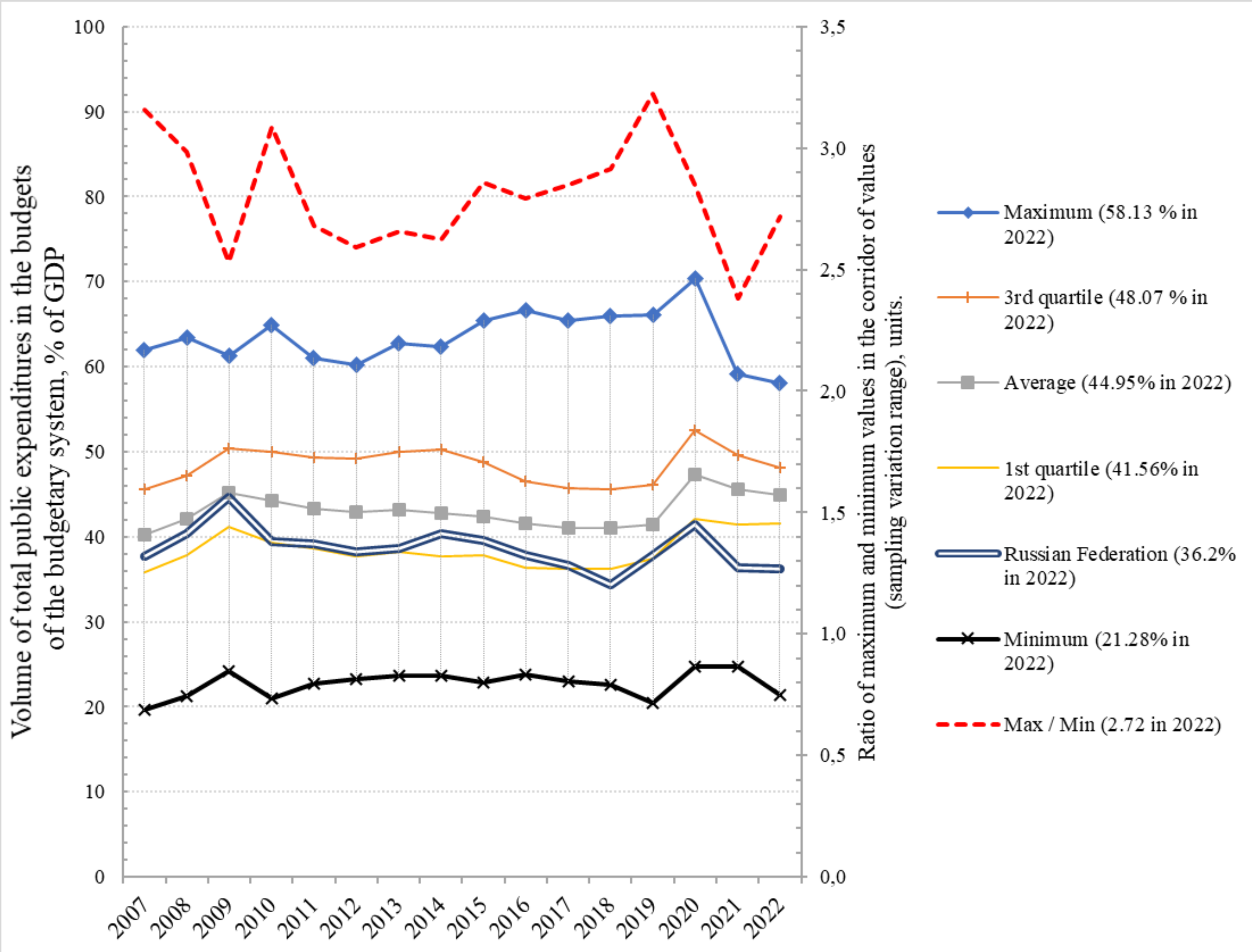

Fig. 1 **Total Government Expenditures as a Percentage of GDP (2007–2022) For OECD countries (full list), Russia (excluding sovereign fund savings and expenditures), Brazil, Bulgaria, Croatia, Indonesia, and Romania**

Source: compiled by the author based on data.: OECD (official website). URL: https://www.oecd.org/en/data/datasets/oecd-government-at-a-glance-database.html; IMF (information portal). URL: https://data.imf.org/en/Data-Explorer; Russian Ministry of Finance (official website). URL: https://minfin.gov.ru/ru/perfomance/budget/policy/osnov

Notes: Descriptive statistics are calculated based on the complete sample of countries (“extended» OECD, consisting of 44 countries).

The concept of “regulation” refers to the process of bringing a certain mechanism, phenomenon or process into order (the target state) in accordance with the expectations or requirements of the subject of regulation with regard to its object.[1] In the theory of management, the state regulation is understood as the elimination and mitigating market failures by influencing the institutional environment by means of a system of specific levers, instruments and regulatory methods of management [5].

Economic policy and economic regulation are closely interrelated macroeconomic categories. They differ mainly in their planning horizon, their role (and function) in organising the work of the government. Economic policy is a strategic planning instrument, which establishes general principles, directions and activities of the state related to the achievement of the country’s objectives of national economic development. In its turn, economic regulation includes specific operational

[1] Encyclopedia of Sociology. Moscow. The Institute of Sociology, of the Russian Academy of Sciences; 2009. page1000.

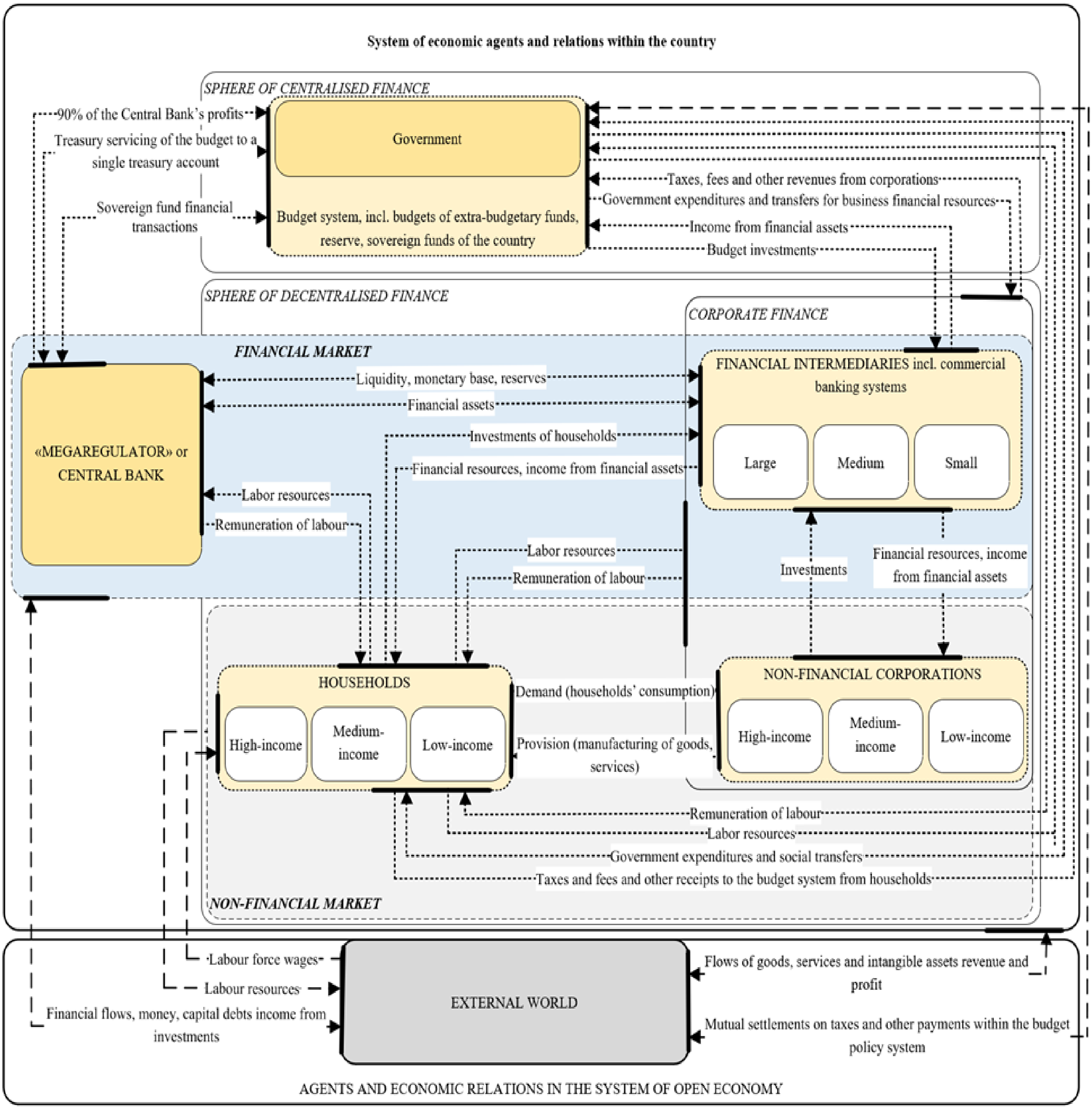

Fig. 2. **Economic Model and the Role of Public Finance in the System of Economic Relations**

Source: Compiled by the author based on the study materials.

and tactical measures, mechanisms and tools, as well as the methods of their applications aimed to solve current economic problems and adjust processes to ensure the most optimal trajectory of development in accordance with the principles of the adopted economic policy.

The definition of finance as the key to understanding the essence of public financial regulation of the economy

Public financial regulation should be assessed as a narrower concept than public regulation and public economic regulation because it is limited by the context for the term "financial". Therefore, the essence and the versions of definitions "financial regulation" and "public financial regulation" will depend entirely on how the term "finance" is interpreted as a category [6].

In scientific literature and even more in educational materials, this particular definition is understood as economic or monetary relations associated with the formation, distribution, and use of money or financial resources to achieve certain objectives [7, 8]. However, in practice and in common speech, finance is often interpreted as '"the aggregate of money and financial resources"[2] and, as a phenomenon, it may be implied, that finance does not necessarily require the monetary flow.[3]

The Report of the Bank of Russia entitled as "Decentralised Finance (DeFi)" refers to payments, settlements, monetary operations, and transactions with financial assets on the financial market and in the economy. The document pointed out, that the emergence of cryptocurrencies has added to classical finance a new sphere of DeFi, which has become a new form of financial transaction distinguished by the absence of financial intermediaries.[4]

Given the variety of points of view on finance, one should consider a broader category than the definition presented in academic literaturefor universities. Finance encludes money, cash equivalents, transactions and flows, as well as financial transactions that do not involve cash. According to the International Financial Reporting Standards (IFRS), the latter includes financing activity transactions in the framework of the cash flow statement, where capital is restructured by converting liabilities into it, resulting in changes properly to the structure of both liabilities and its related assets.

Finance, as a phenomenon, can be described as a function, with money and its equivalents represented as inputs, and financial resources as outputs. In this case, any transaction is characterised by a counter-movement of value in the form of goods, services, or financial assets. In a narrow interpretation, finance is understood only as the exchange of money and its equivalents for financial assets (the distributive concept).[5] In a broader interpretation, finance is manifested at all stages of social reproduction (the reproductive concept) [9].

Transition from finance to financial policy and the regulation of the economy

Some experts often match financial policy with budgetary, fiscal or economic policy and, subsequently, use such approach to formulate the concept of state financial regulation (see *Fig. 3*).

However, scientific and educational literature provided a whole variety of definitions of financial policy and the state financial regulation of the economy, which has led to confusion in this field of study. Based on the proposed abovementioned approach to defining finance, we can clarify the definitions of public finance policy and state financial regulation of the economy, thereby eliminating contradictions in the interpretation of these concepts within the Russian academic school and international scientific community. To start with, the following state-

[2] Etymological Dictionary by Max Vasmer. URL: https://gufo.me/dict/vasmer/финансы (accessed on 04.12.2024); Conference of the International Movement on Financial Security. Rosfinmonitoring. 2024. URL: https://www.fedsfm.ru/releases/8725 (accessed on 04.12.2024);"Sovereign financial system in the period of transformation: in the service of national goals, on guard of welfare" Comment by A. Siluanov — timecode from 20:30 to 20:40 at the 2024 Financial Forum in Moscow. URL: https://vkvideo.ru/video-169401082_456239644 (accessed on 04.12.2024).

[3] Statement of Cash Flows. International Financial Reporting Standard (IAS) 7. URL: https://minfin.gov.ru/common/upload/library/no_date/2012/IAS_07.pdf (accessed on 04.12.2024).

[4] "Decentralised Finances (DeFi)". The Bank of Russia. URL: https://cbr.ru/Content/Document/File/141992/report_07112022.pdf (accessed on 04.12.2024).

[5] Drobozina L. A., Finance and Credit of the USSR. Textbook for Universities. Moscow: Finance and Statistics; 1982, page 430; Rodionova V. M., Discussion questions of the essence and functions of Soviet finances. Study Guidebook. Moscow: Moscow's Physics and Technical University; 1984, page 220.

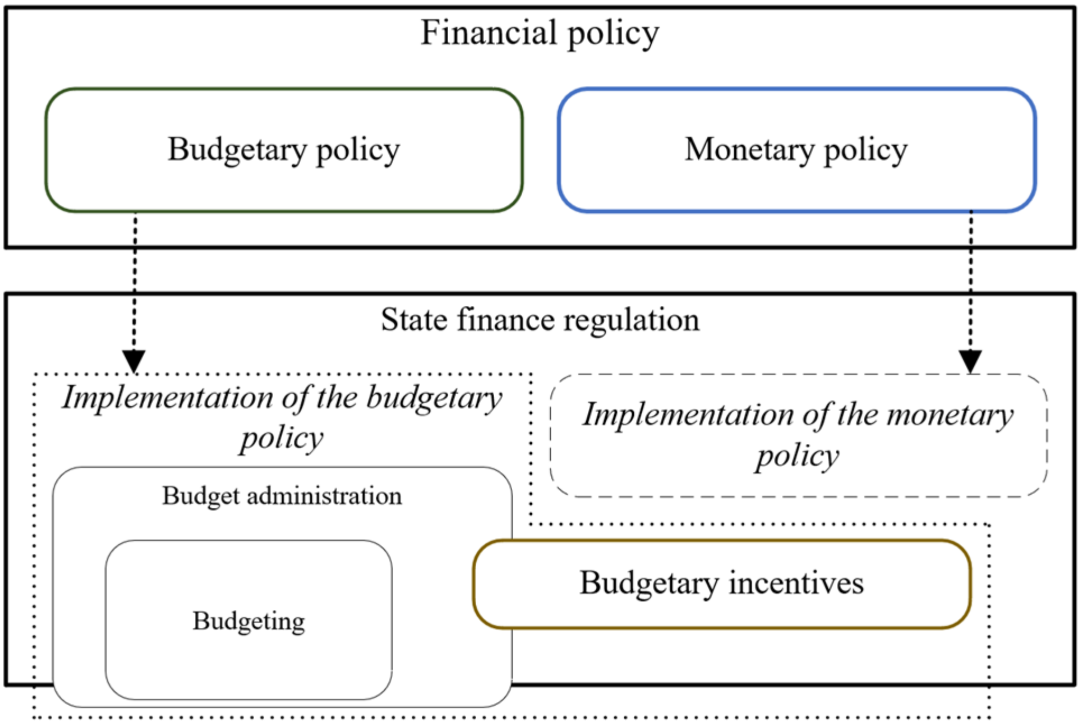

Fig. 3 **Logical Diagram of the Interrelationships between Fiscal, Monetary, and Budgetary Policy, and Government Financial Regulation**

Source: Compiled by the author based on the study materials [10].

ment should be used to substantiate this work: the Ministry of Finance of Russia operates with the categories of "budget, tax, customs and tariff policy", which are not equated with the terminology "financial policy", but instead they are disassociated from it.[6]

A review of documents published by the Russian Ministry of Finance related to the topic of the given study has identified, that the word combination "fiscal policy" only appeared for the first time in 2018,[7] however, the context of this concept was not sufficiently clarified. The abovementioned document states that "the consequences of the most powerful external shock in the last half century would be overcome by the second half of 2016 by the state economic policy (and budget policy as its integral component)", and that "in view of this the national economic and financial policy have undergone qualitative changes in recent years". Subsequently, the budgetary policy makes a part of economic policy, whereas the financial policy appears to exist independently. The latter is related to "the development of state policy and legal regulation in such areas as banking, insurance, credit, microfinance, financial markets, organisation and conduct of lotteries and gambling, the production and sale of counterfeit-proof

[6] Ministry of Finance of the Russian Federation. Main directions of budget, tax, customs and tariff policy of the Russian Federation. URL: https://minfin.gov.ru/ru/perfomance/budget/policy/osnov (accessed on 04.12.2024).

[7] Draft basic guidelines for budget, tax, customs and tariff policy for 2019 and for the planning period of 2020 and 2021. Ministry of Finance of Russia (official website). URL: https://minfin.gov.ru/ru/statistics/docs/budpol_taxpol?id_57=123006-proekt_osnovnykh_napravlenii_byudzhetnoi_nalogovoi_i_tamozhenno-tarifnoi_politiki_na_2019_god_i_na_planovyi_period_2020_i_2021_godov (accessed on 04.12.2024).

printing products, the state regulation of credit history bureaus as well as arrangement and investment in pension fund savings”.[8] This concept is determined within the section dedicated to the organisational structure of the Russian Ministry of Finance and confirmed by the description of functional responsibilities for the Financial Policy Department. Thus, the current practice of the Ministry of Finance indicates, that state financial policy, as a field of work of the Russian Government, is separate from economic policy, regarding the issues of budget, tax, customs, tariff and monetary regulation and it relates exclusively to financial market regulation issues.[9] In this context, such terms as “financial policy” frequently used in scientific and educational literature in the sense of “budget policy” or “fiscal policy” [11, 12] or “economic policy” [11, 12] appear extremely contradictory. [13]

In foreign scientific works, the term “financial regulation” is also predominantly associated with the regulation of the financial market and ensuring its financial stability. It is usually controlled by a mega-regulator and is referred to as “macro prudential regulation of the economy” or “macro prudential measures”.[10] Macro prudential stability of the financial system and financial markets is achieved through the centralised supervision of the financial sector of the economy by Central Bank (or other authorised regulator), as well as financial risk management [14].

It seems like “financial market regulation” and “financial regulation” are two different concepts, and the latter should seemingly include the former. Even when we consider finances within the framework of the distributive concept, financial regulation should not be limited to a single financial market. In the essence, finance (as part of economic relations) is related only to the distribution of monetary incomes, manifesting itself in a wider sphere in both the financial market and the budget system. Consequently, the approach to the definition of the state financial regulation of the economy (SFR) found in many foreign sources is incorrect and the definition itself is incomplete.

There is no doubt about the statement that the government is the main subject of the state financial regulation of the economy, which carries out this work using the distributive mechanism of the budget system [15]. In our country, the subjects of the state financial regulation of the economy are the Ministry of Finance of Russia, the Federal Tax Service of Russia, Rosfinmonitoring and the Federal Treasury etc., in short, all public authorities involved in implementing, monitoring and/or controlling financial transactions.

At the same time, we have figured out that the Bank of Russia is also involved in important tasks for state financial regulation of the economy. Firstly, it fulfils the function of a mega-regulator of the financial market and secondly, it has the exclusive right for emission of the monetary base, as well as it fully controls the circulation of money and monetary operations, either directly or indirectly through the national system of commercial banks. The Bank of Russia owns a special legal status apart from the government, ensuring an independent monetary policy.[11] Therefore, we should give some thought, whether its activity in regulating finances should be subject to the sphere of state regulation. As the authority of the Central Bank of the Russian Federation from the legal point of view are considered to be of the state power functions, their implementation involves the use of state coercive measures. The

[8] Financial Policy. Ministry of Finance of the Russian Federation (official website). URL: https://minfin.gov.ru/ru/perfomance/finans/ (accessed on 04.12.2024).

[9] Ministry of Finance of the Russian Federation. Financial Policy Department. URL: https://minfin.gov.ru/ru/ministry/structure/departments/?id_4=3-departament_finansovoi_politiki (accessed on 04.12.2024).

[10] The Bank of Russia. Macro prudential policy of the Bank of Russia: concept of implementation and planned solutions. URL: https://cbr.ru/Content/Document/File/140208/material_20220920.pdf (accessed on 04.12.2024).

[11] Federal Law “On the Central Bank of the Russian Federation (Bank of Russia)” No. 86-FZ dated 10.07.2002. URL: http://pravo.gov.ru/proxy/ips/?docbody=&nd=102077052 (accessed on 25.10.2024).

system of classification of public authority entities determined the Bank of Russia itself as a subject of the public sector of the economy. Therefore, it would be rational to consider it a subject of the state financial regulation of the economy, or state regulation of finances.

In scientific and academic literature, the latter is defined as the influence on socio-economic processes to prevent or eliminate disbalances and ensure the development of advanced technologies and social stability by means of concentration of financial resources in certain market segments and restricting their accessibility to other segments.[12]

The state financial regulation of the economy aims to eliminate excessive or undesirable imbalances in the economy from the general well-being points of view, such as territorial (regional inequality of living standards or incomes, etc.), sectoral (monopolisation of industries etc.), social (poverty and socio-economic inequality etc.), through the adoption of appropriate regulatory measures. These measures become the aggregate of certain tools, instruments and methods. Thus, the government can reduce income inequality through budget and tax regulation tools (see *Fig. 4*).

The author calculated the change in the Gini index for the period 2005–2022, (*Fig. 4*), as the difference between the partial pre-tax and post-tax Gini indices minus one (the result is taken in accordance to the module). The obtained results illustrate the percentage reduction in inequality (the higher the percentage, the greater the effect of income redistribution on the economy). For the better understanding, *Fig. 4* also shows the value

[12] Abramova M.A., Goncharenko L.I., Markina E.V. Financial and Monetary Methods of the Economy Regulation. Theory and Practice. Textbook for Master's Degree. 2nd edition. Moscow; Yurait; 2018. page 486

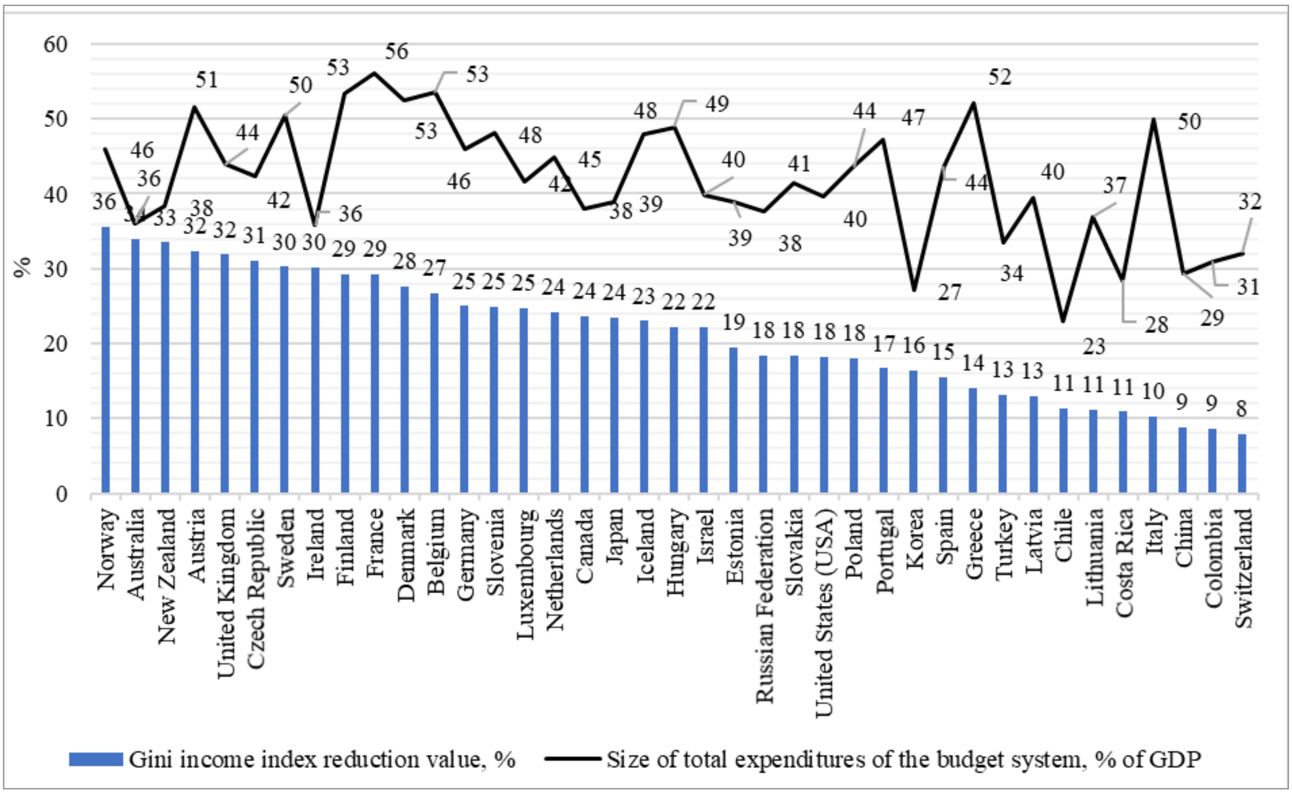

Fig. 4. **Results of Income Inequality Regulation in OECD Countries, as well as in Russia and China (Average Annual Values for the Period 2005–2022)**

Source: compiled by the author based on IMF (budget expenditures) and WID (pre-tax and post-tax income inequality by Gini index) materials.

of budget expenditure as a percentage of GDP. As a whole, *Fig. 4* indicates that reducing inequality is influenced by far so many factors beyond just budget expenditure, including taxes and the result of monetary regulation (the channels of influence for inequality are the labour market and inflation).

The boundaries of the state financial regulation of the economy and the sphere of state economic regulation could probably overlap. The former's objects include various aspects of generation of value proportions in the economy and the existing conditions of its branches, the state of the financial market, the level of development and budgetary security of the territories, and money flows in the social sphere for citizens in need etc. Unlike economic regulation, the target areas of the state financial regulation of the economy are not all financial and economic operations, but rather the aggregate of those, which is related to money and financial transactions with or without cash flow (see *Fig. 5*).

Fig. 5 indicates that the areas of budgetary, tax, customs and tariff, and monetary and macro prudential regulation are located within the spheres of economic and financial regulation. The issues related to transactions within these spheres will be referred to the state financial regulation of the economy. However, it is clear that there are other aspects of state regulation not directly related to money, its equivalents, or financial transactions. Thus, the spheres of financial and economic regulation overlap indeed, as they reflect different sections of social relations (and neither one of them includes the other one entirely).

Instrumentarium and types of state financial regulation of the economy comprising tools, methods and forms

As was previously demonstrated, according to the spheres of activity, state regulation is divided into economic (fiscal and monetary, as well

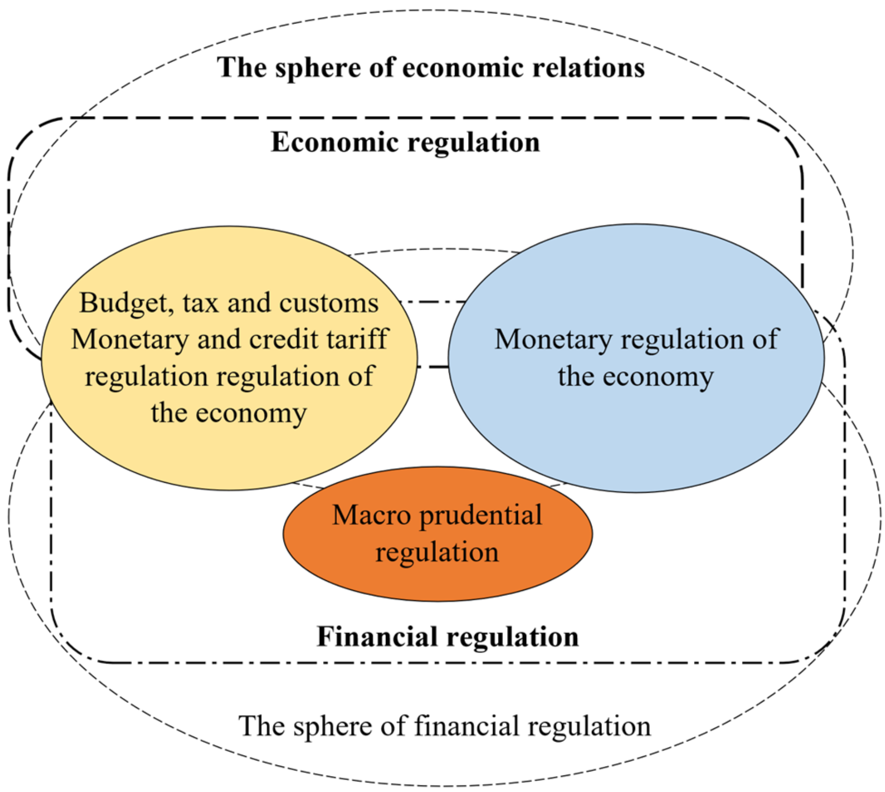

Fig. 5. **Boundaries of Government Financial Regulation**

Source: compiled by the author based on the study materials.

as budgetary, tax, customs and tariff, and monetary) and financial (the activities of the Ministry of Finance and the Bank of Russia in ensuring the stability of the financial market). It is fair to complete the description of state regulation more comprehensively: it deals with the social sphere, demography, ecology, the system of legal relations etc., within the framework of the function aimed to eliminate market failures.

According to the types of the state financial regulation of the economy, it is notable to distinguish the corresponding forms, methods, and tools of its impact on the spheres and objects of regulation.

The concepts of "method" and "instrument" are quite closely related. The only difference is that a regulatory tool influences an object, like, for example, a tax rate. At the same time, a method is a systematised set of steps or activity necessary to apply such an instrument in order to achieve a certain goal. Thus, the method of using the tax rate represents its change depending on the goals pursued, for instance, the growth to increase tax revenues or the reduction to stimulate the economy, etc.

The interpretation of the concepts is not controversial for the terminology of "tool" and "method'" in the context of the state financial regulation of the economy (meaning how the tool is applied): however, their division into direct and indirect forms is an extremely arguable and perplexing topic due to the wide range of expert opinions revealed in this field.

The differences between the direct and indirect forms of the state financial regulation of the economy is related to the direction of the impact on the object of regulation: the former influences directly the object, meanwhile the latter influences it indirectly by changing its operating environment. Y.A. Bugai suggests identifying the form of financial regulation judging by an intermediary's presence in a monetary transaction and by the principle of its impact [16]. If the regulator makes an influence on the environment (or circumstances), where the object of regulation operates, so that it can make an independent decision (preferably from the point of view of the subject of financial regulation), this should be accounted as an indirect form of financial regulation.

Another point of view declares, that all economic and financial methods can be regarded as indirect, while only regulatory and administrative methods should be considered as direct [17]. This idea is based on the division of state regulation into two main categories: (1) the market (indirect) sphere, and (2) non-market (direct). However, this concept has a drawback: for scientific articles this kind of systematisation (into direct and indirect categories) is quite common within the framework of economic (including financial) regulatory methods.

Some sources point out, that direct methods of the state financial regulation of the economy include budgetary measures (application of budget expenditure) [18], while indirect methods include tax and monetary measures.[13] This means that the same instrument of the state financial regulation of the economy can be both direct and indirect, depending on how it is applied. For example, subsidising the manufacturer's costs related to investments for making a production line is regarded as a direct form of financial regulation, whereas subsidising the interest rate of an authorised bank issuing preferential mortgage loans to the public is regarded as an indirect form.

Andreeva O.V. suggests regarding direct and indirect forms in accordance with the cash flow criterion involving the object of financial regulation [19]. This seems to be a very interesting idea taking into account the financial aspect of the issues of state financial regulation of the economy, since in this case the emphasis is on cash flows.[14]

[13] Abramova M.A., Goncharenko L.I., Markina E.V. Financial and Monetary Methods of Economic Regulation. Theory and Practice. Textbook for Master's Degree. 2nd Edition. Moscow. Yurait; 2018, page 486.

[14] As is known, the concepts of finance and money with rare exceptions are equivalent.

Table

Classification of Government Financial Regulation Instruments (Public Financial Regulation Toolkit)

Spheres and links of the state financial regulation system		Instrument	Form
Sphere	**Link**		
Budget, tax and customs-tariff regulation	Tax regulation	Tax rate (flat, progressive, regressive)	Mixed (direct taxes are a direct form of influence, together with the direct withdrawal of money; but indirect taxes are indirect, included in the price of goods/services, and the tax itself is paid by legal entities)*
		Tax incentives (deductions, non-taxable minimum, deferrals, holidays, tax exemption, etc.)	Mixed (investment tax deductions made directly to a specific person as a cash payment. The non-taxable minimum is related to all citizens and does not require the movement of money)
	Non-tax regulation related to the generation of state and municipal revenues	Insurance premium rates in the State Non-Budget Fund	Direct
		Rates of state monopolies	Direct
		Customs duties	Direct
		Mechanism of profit distribution of state-owned organizations	Direct
		Mechanism for leasing state property	Direct
		Fines, financial sanctions	Direct
	Regulation related to the state and municipal expenditures	Subsidies to business entities	Mixed (subsidies to a legal entity or household from the budget, which makes a direct form. Subsidies to a bank to cover lost income from preferential mortgages, which makes an indirect form)
		State and municipal purchases	Direct
		Budget investments	Direct
		Social allowances	Direct
		Budget allocations for the provision of state and municipal services in the field of healthcare, social services and education	Indirect (the final beneficiary receives economic benefits in the form of services, not money). Instead of the object of regulation, the money is received by authorized or accredited institutions from the social sphere)
	Non-tax regulation related to the generation of debt obligations of public-law entities and the placement of temporarily free budget funds	State borrowing	Indirect
		State guarantees	Indirect (payments under government guarantees are made to a third party, the creditor, so that the guarantee itself supports the borrower)
		Placement of temporarily free budget funds, management of sovereign funds and reserves	Indirect
	Non-tax methods of financial regulation related to setting the parameters of the financial mechanism of budget federalism and interbudgetary relations	Mechanism for sharing revenues between budgets of different levels	Direct
		Mechanism for expenditure sharing between budgets	Direct
		Interbudgetary relocation of financial resources, which in addition to interbudgetary transfers also includes budget loans	Indirect

Table (continued)

<table>
<tr><th colspan="2">Spheres and links of the state financial regulation system</th><th rowspan="2">Instrument</th><th rowspan="2">Form</th></tr>
<tr><th>Sphere</th><th>Link</th></tr>
<tr><td rowspan="3">Monetary regulation</td><td rowspan="3">Monetary regulation</td><td>Key rate</td><td>Indirect</td></tr>
<tr><td>Determined reserve requirements for credit institutions</td><td>Indirect</td></tr>
<tr><td>Open market operations</td><td>Mixed (if the object of regulation is the financial market, for instance, with targeting prices for financial assets, then this is a direct form; otherwise, it will be an indirect form of regulation)</td></tr>
<tr><td rowspan="3">Macroprudence</td><td rowspan="3">Macroprudence</td><td>Anti-cyclic buffer (AB): capital requirements for credit institutions to accumulate a capital buffer</td><td>Indirect</td></tr>
<tr><td>Risk coefficient premiums: premiums for systemic importance; changes in short-term and long-term liquidity standards, etc.</td><td>Indirect</td></tr>
<tr><td>Macro prudential limits (MPL): credit restrictions (debt burden limits) on unsecured consumer loans; currency (limit on open currency positions)</td><td>Indirect</td></tr>
<tr><td rowspan="4">Financial and investment institutions and the external environment of operation</td><td rowspan="4">Regulation of the institutional environment for business (organizations) the state financial regulation of the economy</td><td>Institutions for improving the investment climate (Direct Investment Fund, Investment Ombudsman, Agency for Strategic Initiatives, Agency for Export Credit and Investment Insurance, Advisory Council on Foreign Investments)</td><td>Indirect</td></tr>
<tr><td>Special (free) economic zones (SEZ)</td><td>Indirect</td></tr>
<tr><td>Public-private partnership (PPP)</td><td>Indirect</td></tr>
<tr><td>Information and analytical centers</td><td>Indirect</td></tr>
<tr><td colspan="3">Others</td><td>–</td></tr>
</table>

Source: Compiled by the author based on the study materials.

Note: * - this is the most simple and comprehensive example of differentiation between direct and indirect instruments.

If the object of regulation is liable to withdrawal or provision of monetary liquidity (for example, the object of regulation has directly an inflow or outflow of cash), this is a direct form of financial regulation.

On the contrary, if there is no cash flow regarding to the object, but the environment in which it operates changes, or financial flows related to financial regulation move endorsed to the intermediary (which allows the object of financial regulation to save money or receive other monetary benefits), this form should be considered as indirect financial regulation.

To sum up the research work of the methodology to determine the direct and indirect forms of the state financial regulation of the economy, the authors emphasise once again, that a scientific approach to their affiliation is complicated [20]. To solve this issue, we suggest focusing on cash flow relative to the object of regulation. A direct form of financial regulation occurs, when the cash flow and/or its equivalents are transferred directly to or from the object of regulation. However, if funds and/or their equivalents move or are withdrawn instead of the subject of regulation to its counterparty, or to a third party, which meanwhile influences the subject of regulation, then an indirect form of financial regulation occurs. Finally, in case of absolutely no money transferred, the regulation can be of both state and non-state nature, but this situation most likely should not be regarded as the one characteristic for the financial sector.

In the final part of the research work, the authors will classify the forms, methods and tools of the state financial regulation of the economy by their direction or sphere: tax, budgetary, customs, tariff, monetary, credit, macro prudential, etc. to establish a consistent logical relationship between all of them (see *Table*).

CONCLUSIONS

The results of the given research has confirmed, that there are many controversies related to the concept of "the state financial regulation". Interpretations of this definition diverge in the academic literature. In practice, the differentiation in its forms seems to be a complicated task, which, besides, bears only a theoretical significance, since there are no examples of the state financial regulation's instrument segmentation in practice. Classifying the types of the state financial regulation is also universally challenging, as it is difficult to distinguish between direct and indirect instruments and its methods from budgetary, tax and customs-tariff instruments and methods, since each of these groups contains both types of the state financial regulation.

Clarifying the concepts of "finance" and "state financial regulation" has enabled to eliminate theoretical controversies that have been used in abundancy in domestic and foreign academic literature. The given article clearly distinguishes between the studied phenomena: financial regulation, state financial regulation, financial policy, budgetary policy, tax policy, customs policy, tariff policy, etc. The research work made a special emphasis on the complexity and multifaceted nature of the public financial management system. It has also revealed the areas of intersection and the unique functions of each of the phenomena studied and facilitated to draw a graphical model of the state financial regulation as well.

The classification of instruments and forms developed by the author could be used to make the management of financial flows more efficient and make this scientific research more productive in the subsequent research work.

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