



Peculiarities of mid-term planning of public finance in Uzbekistan

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ABSTRACT

The article describes preconditions and specifics of transition to mid-term planning of the state budget in the Republic of Uzbekistan. It generalizes successful international experience of targeted budgeting program. It proves that the advantages of mid-term budget planning, first of all, include stabilization of fiscal policy and macroeconomic situation in whole, as it means public awareness of government policy for several years ahead, reduction of uncertainty and risks for business, and for foreign investors and international rating agencies it allows to assess the level of capital investment risks and ultimately, serves for improvement of investment environment, raise life standard of the population.

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Особенности среднесрочного планирования государственных финансов в Узбекистане

АННОТАЦИЯ

Ключевые слова:

Инновации
Цифровая экономика
Технология
Продукция.

В статье описаны предпосылки и особенности перехода к среднесрочному планированию государственного бюджета в Республике Узбекистан. Автор обобщает успешный международный опыт программы целевого бюджетирования. Это свидетельствует о том, что к преимуществам среднесрочного бюджетного планирования, прежде всего, можно отнести стабилизацию фискальной политики и макроэкономической ситуации в целом, так как это означает осведомленность общественности о государственной политике на несколько лет вперед, снижение неопределенности и рисков для

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бизнеса, иностранным инвесторам и международным рейтинговым агентствам позволяет оценить уровень рисков вложения капитала и, в конечном итоге, служит улучшению инвестиционной среды, повышению уровня жизни населения.

INTRODUCTION

The planning and forecasting of the state budget as the main source of funding for the social needs of the population is the subject of many works by domestic and foreign scientists. The latter confirm the fact that it is impossible to effectively use budget funds without high-quality budget planning, the implementation of which for the medium term ensures the relationship between the strategic priorities of state development and tactical measures implemented by the authorities in the current financial year [1, 2, 10, 12, 13, 14, 15, 17, 19, 20].

However, despite this, the issues of medium-term budget planning require further development and improvement.

MATERIALS AND RESEARCH METHODS

One of the main economic policy objectives of the Government of Uzbekistan is to maintain stability in development of socio-economic sphere. While this goal was understood in the past as financial stabilization, today it means sustainable development of the whole socio-economic system in the mid - and long term perspective. The ability of government agencies to make and execute multi-year forecasts, including financial plans and budgets, is considered as a key criterion for achieving this political goal.

In the past years practice, planning of the State budget of the Republic of Uzbekistan was carried out on an annual basis with active use of "indexing" method. Requests for budget were formed by indexing the previous year appropriations by budget items classification. Based on standards and network indicators, the expenses were planned for the salaries and the single social payments, utilities, as well as expenses arising from adopted new government and industries' programs.

The Budget Code of Uzbekistan, adopted at the end of 2013 and entered into force in early 2014, today is the most important legal regulatory act for budgeting and budget planning. In particular, it states that one of the principles for building the budgetary system of the country is "forecasting income and planning budget expenses in a whole budgetary system" [3, Art. 7]. When drawing up budgets of the budgetary system, the incomes are forecasted according to their specific sources, while the expenses are planned for areas in accordance with the budget items classification.

The system of budget planning itself is focused on balanced budget execution. However, according to experts, the potential of annual planning system is too limited in terms of ensuring macroeconomic stability, implementing economic and social development programs, predictability of fiscal policy. The administrators and recipients of budget funds cannot forecast their prospects beyond the planned year [18, p. 3].

With annual planning, fiscal discipline is possible in terms of achieving results close to planned ones. But the benefits of such fiscal discipline are limited to a single year. The planned annual budget can be implemented in terms of income and expenses, but in the end, you may face a deficit that does not correspond to macroeconomic circumstances. This is due not only to an inability to foresee future macroeconomic changes and their

impact on fiscal incomes, but also to inability to evaluate impact of current budget decisions on future budgets.

The weakness remaining in budget planning, is the linkage between current budget with investment program. After commissioning the projects implemented in the framework of investment program (construction of new capacities, provision of equipment for existing facilities), require ongoing maintenance expenses. In some cases, annual budget planning does not foresee that commissioning of new facilities is consistent with the budget forecast, meaning the costs of maintenance is not taken into account.

The Strategy of Action on five priority directions of development of the Republic of Uzbekistan in 2017-2021, adopted in 2017, is changing the vision and approaches to strategic planning of state and social development prospects. The Strategy emphasizes that sustainable growth rates of GDP can only be achieved by maintaining macroeconomic balance based on adopted mid-term programs [8]. In this context, mid-term budget planning is becoming not just the next stage of budgetary reform, but a necessary precondition for better macroeconomic and fiscal stability.

The factors driving the transition from annual to mid-term budget planning include the following:

- forecasting future changes in macroeconomic parameters and their impact on fiscal incomes will make possible to specify in advance the sources of additional measures taken while implementing government programs;
- mid-term planning will help to assess the budget consequences of measures taken today for subsequent years (tax incentives, cancellation or introduction of a tax or fee, raise of wage and pensions, foreign loans, etc.), thus to improve fiscal policy, considering possible risks and risk management;
- knowing future tax policy of the country, which transparency can be achieved through mid-term budget planning, investors will be confident in making their investment plans for the period ahead;
- defining cost ceilings of every industry (ministry) will make forecasts more realistic;
- monitoring mid-term plans and tasks implementation will increase transparency of budget formation and execution.

Mid-term budget planning contributes in changing budget management (Fig. 1).

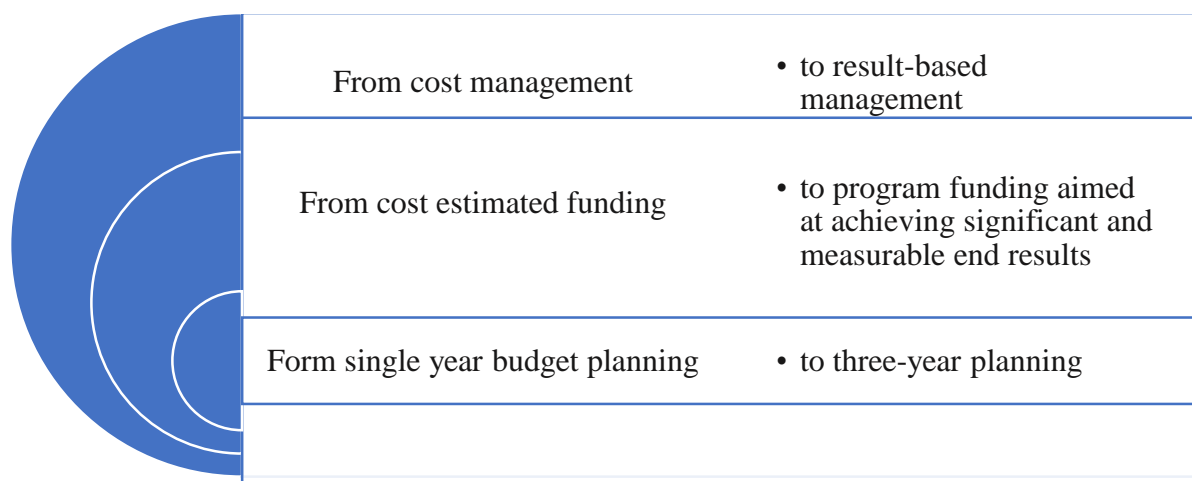


Fig. 1. Transition from the cost-based method to mid-term result-oriented budgeting [9, p. 39]

The mid-term framework is, in fact, the conceptual basis for mid-term budget planning. The models that have formed up on this basis differ from country to country, however, there are two basic models can be identified:

1. Mid-term budgetary framework and annual budget. In this model, the budget is drawn up for one year, but mid-term limits (frames) for income and expenses are applied (in various sections for 3-4 years);

2. Multi-year budget. The budget is drawn up for mid-term period (3-5 years) on a flexible basis. This means each year a budget for several years (3-5) is adopted by annual adding one year to the previously adopted multi-year budget.

Tab. 1

Mid-term budget planning models [18]

Models	Country	Planning period
Mid-term budgetary (program) framework and annual budget	EU, Canada, Australia, New Zealand, Armenia, Ukraine, Belarus	3-4 years
Multi-year budget	Russia, Kazakhstan	3 years

The first model is applied in the world more then second one; it is taken as a basis and then adapted according to specifics of each country. Most developed countries adopt their own budget for one year, but with strict limits on deviations from the mid-term budgetary framework that has a function of determining aggregate limits on budget revenues and expenses for the mid-term perspective.

The second model has not become widespread one due for it requires a higher level of rigidity in budget and fiscal discipline, stability in economic development in whole, as well as an enormous burden on government agencies while preparing multi-year budget.

For many years Australia, UK, Canada, New Zealand, the US and other countries have been improving their budgetary process and proved that only implementation of mid-term budget planning and result-oriented budgeting coordinated with a system of balanced forecast indicators of mid-term economic development can give real positive results in radical improvement of public sector activities and the effective use of budget funds [9, p. 63].

Currently, there is transition to mid-term budget planning is underway in Uzbekistan. "Budget for Citizens-2018", the first budget of the country prepared together with population, stated that the state budget in the Republic of Uzbekistan was adopted for one year [4]. But in the "Budget for Citizens" for 2019, transition to mid-term budget planning is determined as the main factor maintaining macroeconomic and fiscal stability in the country [5].

Starting from 2019, the state budget is being drafted for three years, including budget parameters for the forthcoming year and taking into consideration mid-term budgetary targets for the next two consequent years. Mid-term budget targets will be drawn-up on a flexible basis, meaning they will be annually shifted one year forward.

Transition to mid-term budget planning seems to be essential to maintain macroeconomic and fiscal sustainability. For an average citizen, it means awareness of government's policy for three years ahead - what the tax policy will be, whether the size and structure of expenses will change, and what areas will be in priority for years to come.

Mid-term budget planning is important also for business as it will reduce uncertainty and risks.

Moreover, foreign investment companies and international rating agencies assessing investment risks are also interested in reliable information on the country's mid-term macroeconomic forecasts. Transparent and predictable fiscal policy and key budget indicators for the mid-term period facilitate in improving investment environment.

The Resolution of the President of the Republic of Uzbekistan No. PP-4086 dated December 26, 2018 determines the main macroeconomic indicators and parameters of the state budget of Uzbekistan for 2019 and budget guidelines for 2020-2021:

Tab. 2

Aggregate parameters of Consolidated Budget of Uzbekistan for 2019 and budget targets for 2020-2021, in billion Soums [16]

Indicators	Forecast for 2019	Budget targets	
		2020	2021
Incomes in Consolidated budget	121 830,0	149 978,9	182 741,8
Income in State budget	102 627,6	126 163,5	154 185,5
Income in State target funds	19 202,4	23 815,4	28 556,3
Expenses in Consolidated budget	129 625,3	153 981,8	182 491,8
Expenses in State budget	107 118,4	130 580,5	154 712,5
Expenses in State target funds	27 508,1	33 271,3	39 129,3
Balance	-7 795,3	-4 002,9	250,0

Nowadays, the Government of the Republic of Uzbekistan has presented a Report on execution of the State budget of Uzbekistan in 2019; on this basis we can make analysis of preliminary planning and forecasting of budget parameters.

Tab. 3

Execution of Consolidated Budget of the Republic of Uzbekistan in 2019, in billion Soums [7]

Indicators	2019 (parameter)	2019			
		Quarter 1	6 months	9 months	Annual
Incomes in Consolidated budget	121 830,0	30 066,3	63 418,3	97 602,3	136 950,8
Income in State budget	102 627,6	23 065,9	50 662,3	79 110,3	112 165,4
Income in State target funds	19 202,4	7 083,8	12 930,6	18 754,0	25 165,2
Expenses in Consolidated budget	129 625,3	30 374,7	67 939,4	105 966,3	144 701,0
Expenses in State budget	102 117,2	24 145,9	55 266,3	86 482,4	118 008,6
Expenses in State target funds	27 508,1	6 312,2	12 847,6	19 745,9	27 072,1
Transfers between State budget and State target funds	5 001,2	83,4	174,6	262,0	379,8

Surplus (+), deficit (-) in Consolidated budget	-7 795,3	-308,4	-4 521,1	-8 364,0	-7 750,2
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RESULTS AND ITS DISCUSSION

The analysis reveals that the budget indicators planned for 2019 differ significantly from the actual ones. The revenues of Consolidated budget of Uzbekistan was planned as 121.83 trillion Soums, while actual indicators shows 136.95 trillion Soum, or 12.4% higher. Consolidated budget expenditures exceeded the planned indicators by 11.6%. As for the incomes and expenses in the State budget, they also exceed planned parameters, by 9.3%, and 15.6% correspondingly. A significant difference is also observed in State target funds between the real and forecasted values of income (+ 31.1%, or 6 trillion Soums) (Table 4).

Table 4

Comparison of planned indicators of the budget of the Republic of Uzbekistan in 2019 with the actual values [7]

Indicators	2019 r. (parameter)	2019 r. (reported)	Deviation	
			Billion Soums	%
Incomes in Consolidated budget	121 830,0	136 950,8	15 120,8	+12,4
Income in State budget	102 627,6	112 165,4	9 537,8	+9,3
Income in State target funds	19 202,4	25 165,2	5 962,8	+31,1
Expenses in Consolidated budget	129 625,3	144 701,0	15 075,7	+11,6
Expenses in State budget	102 117,2	118 008,6	15 891,4	+15,6
Expenses in State target funds	27 508,1	27 072,1	-436,0	-1,6
Transfers between State budget and State target funds	5 001,2	379,8	-4 621,4	-92,4
Surplus (+), deficit (-) in Consolidated budget	-7 795,3	-7 750,2	45,1	-0,6

In contrary to above, the real expenses of State target funds were 1.6% lower than forecasted. Therefore, transfers between the State budget and State target funds were actually reduced by 92.4%, which is more than 4.5 trillion Soums.

Fig. 2 depicts the dynamics of execution of Consolidated budget of Uzbekistan in 2019 by quarters. The largest replenishment of incomes and expenses in Consolidated budget in 2019 can be observed in the 4th quarter.

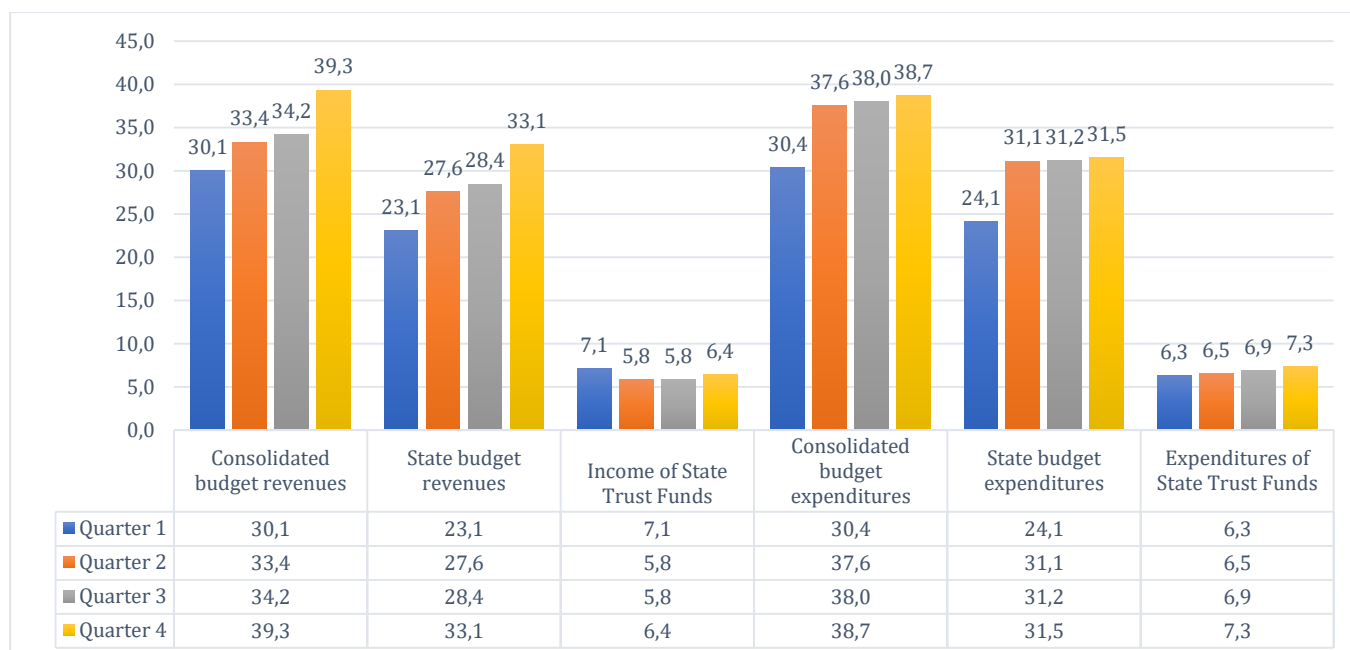


Fig. 2. Execution of Consolidated Budget of the Republic of Uzbekistan in 2019 by quarters, in trillion Soums [7]

The approval of the 2020 budget is associated with the introduction of new practice. For the first time, the State Budget of the Republic of Uzbekistan is adopted by the Oliy Majlis (Parliament) in form of a Law, that provides and determine procedure for further openness and transparency in budget preparation according to international standards and budget data, strengthens parliamentary and public control over the formation and expenses of budget funds [11].

The budgetary policy of Uzbekistan, foreseen for 2020, is aimed at implementing a carefully thought-out fiscal policy, proportional growth of economic indicators and ensuring the stability of the country's financial system. Consistent growth of expenses foreseen in the budget, radical changes in tax policy are aimed at improving the living conditions of the population. Effective public and parliamentary control with the effective use of budget funds are of urgent importance [6].

CONCLUSIONS

Thus, having limited financial resources, the problems of using budget funds are considered as the most crucial for budgetary policy, and the efficiency of budget expenditures is highly important. Effective use of budget funds is impossible without quality budget planning which ensures, in a mid-term, the linkage between strategic and tactical activities.

Currently, the Republic of Uzbekistan is at the initial stage of transition to medium-term budget planning. The study showed the low quality of planning public finances in the country, which is a consequence of a number of both subjective and objective factors. The latter include the coronavirus pandemic that shook the whole world, which negatively affected all aspects of the socio-economic life of Uzbekistan, including the execution of the state budget. For a more accurate and effective planning of the volumes and sources of government revenues and the directions of their spending, it is advisable to use various forecasting methods - modeling, expert assessments, target-oriented method, etc.

Nevertheless, the transition to budget planning in Uzbekistan is an important step towards organizing more efficient budgetary process and maintaining macroeconomic and fiscal sustainability in the country.

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