Development Trends of Budget Transparency in Uzbekistan

Abstract: In recent years, despite the global financial and economic crisis due to the Pandemic, Uzbekistan has achieved one of the highest economic growth rates in the world. Small business and private entrepreneurship are rapidly developing; their contribution to GDP formation has practically approached the average European level. In addition, this at the current stage of development is to ensure sustainable financing of comprehensive development of territories in order to increase the real income, standard of living and quality of life of the population. Sharp decrease of dependence on budget formation from the center, increase independence of local authorities in managing local budgets based on a radical reform of inter-budget relations. In addition, ensuring budget transparency because of the same budget reforms.

Key words: finance, economy, budget, growth, indicators, Uzbekistan.

INTRODUCTION.

The economic transformation underway in Uzbekistan since the end of 2016 has been impressive. Over the past four years, the government has made significant progress in improving citizens’ living conditions through an extensive reform program.

As noted in our first Public Expenditure Review (PER) in 15 years, the Uzbek government has increased budget transparency, improved public financial management, simplified the tax system, and reduced the tax burden. These drastic measures are yielding positive results and tangible benefits.

The very fact that for the first time since 2005. The fact that the World Bank was able to review Uzbekistan’s public expenditures for the first time since 2005 is remarkable enough on its own. However, even more impressive is the trajectory of public financial management in recent years revealed by this review.
MATERIALS AND METHODS OF RESEARCH

Recognizing that transparency is crucial for both good governance and building citizen trust, the government of Uzbekistan has taken decisive steps as part of the ongoing fiscal reform.

For example, until very recently, data on public finances were not available. This made it difficult for citizens to understand how their taxes were spent. To change the situation, the authorities implemented the recommendations of the International Monetary Fund (IMF) to implement the Extended General Data Dissemination System (e-GDDS) used by the IMF [5]. In addition, public finance data published on both the website of the national statistical authority and the IMF website.

Measures to increase citizen participation in the budgeting process and the development of a regulatory framework in this area have been even more encouraging. Thus, starting in 2018, the Ministry of Finance of Uzbekistan began publishing the “Budget for Citizens”. The document explains to the public in an accessible form the government’s priorities, the structure of public resources, and total public expenditures for the next calendar year [2].

In 2019, the country’s authorities took the unprecedented step of presenting a set of medium-term macroeconomic and fiscal forecasts, as well as assessing fiscal risks that require the government’s attention.

To top it all off, the state budget for 2020 was the first in the country’s history adopted in the form of a law rather than a presidential decree. This underscores the growing role of the Uzbek parliament in the budget process.

Before the start of reforms in 2016, more than half of public spending done outside the budget, whether through extra-budgetary funds or off-budget accounts.

Today, 23 extra-budgetary funds, including the Reconstruction and Development Fund of Uzbekistan (RDFU), consolidated in the 2020 budget. This demonstrates significant progress, but this transformation will require additional time, as some 25 extra-budgetary funds and 20,000 to 30,000 extra-budgetary accounts of budgetary organizations (ministries, departments, educational institutions, hospitals) are still in operation [4].

Measures to reduce out-of-budget expenditures are a step in the right direction, but much remains done in this area. In particular, more than one-third of public spending in the country still done through extra-budgetary funds and off-budget accounts. In addition, investments by international financial institutions are still not included in the budget, nor are quasi-fiscal expenditures by state-owned enterprises.
RESULTS.

*CHART: Consolidated total government spending, 2020*
(as a percentage of GDP).

In deciding to improve the country’s tax system, the Uzbek authorities opted for a bold, expansive program. These measures are obviously bearing fruit [1].

The essence of the reform was to reduce the tax burden on citizens and businesses, unify income tax and social tax rates at 12%, rationalize VAT payments, and reduce the number of taxes and mandatory payments. Individual property tax, dividend tax and single tax for micro and small businesses reduced.

These rate reductions have improved tax compliance situations, increasing tax revenues in 2020 by more than a third. This trend refuted the arguments of many skeptics and demonstrated that well-planned reforms can achieve their goals.

Given the successes of the reform program, the government of Uzbekistan needs to maintain the current pace of change while prioritizing reform implementation.

First, consolidating all extra-budgetary expenditures into the state budget will increase the transparency, efficiency, and effectiveness of expenditures. Improving public finance management will also help consolidate the achievements of the reform program.

Second, improving the budget preparation process, introducing sustainable accounting practices in the public sector, and introducing proper public internal control and audit mechanisms will strengthen this area.
Third, with regard to public investment management, the policy focus should be on strengthening the public bodies that identify, design, appraise, implement and monitor infrastructure projects, including those financed through public-private partnerships.

Finally, the tax system needs to be more predictable and less complicated. Although the Tax Code defines the main tax bases and rates for personal income tax and VAT, the government established other tax rates in the annual resolutions governing budget execution (law for 2021). The continuation of tax reform remains a priority for increasing the investment attractiveness of Uzbekistan.

A bold reform program launched in 2016 has helped increase transparency in government spending, reduce spending outside the budget, and improve taxation and tax collection. Efforts to improve the efficiency and effectiveness of spending in many areas, including agriculture, irrigation, education, and finance, continue. Our next Public Expenditure Review (GER-2) will examine the impact of the above reforms.

The Finance Ministry has put up for discussion a bill on the state budget for 2021. According to the document, GDP will grow by 5.1%, and inflation expected to be within 10%. Consolidated budget expenditures should reach 203.8 trillion soums, which is 25.5% more than this year's projected expenditures and 5.6% more than the target.

The Ministry of Finance of Uzbekistan has put up for discussion the draft law on the state budget for 2021. The main directions and indicators of macroeconomic policy for 2021 formed based on the forecasts of the presence of conditions of pandemic coronavirus next year, the press service of the Ministry of Finance said.

Gross Domestic Product (GDP) in 2021 projected at 688.9 trillion soums, which is 12.4% (786.2 trillion) below the initial target. GDP growth rate projected at 5.1% (against the 5.8% target). The growth is expected at the expense of industrial production growth by 5.8%, services by 6.4% and agriculture by 2.7% (it is better to open the tables through the desktop version of the website).

As the downward trend of inflation continues, the inflation rate projected to be 9-10% in 2021, which is better than last year’s projections (11%).

Table 1. (The Old Forecast). Forecast of the Main Macroeconomic Development Indicators for 2020 and Targets for 2021-2022, in Billion Soums.

<table>
<thead>
<tr>
<th>№</th>
<th>Indicators</th>
<th>Forecast for 2020</th>
<th>Budgetary benchmarks for 2021 year</th>
<th>Budgetary benchmarks for 2022 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gross Domestic Product, billion soums</td>
<td>653 546</td>
<td>786 227</td>
<td>923 076</td>
</tr>
<tr>
<td>2</td>
<td>Growth rate of gross domestic product, in %</td>
<td>5,5</td>
<td>5,8</td>
<td>6,2</td>
</tr>
<tr>
<td>3</td>
<td>Consumer price index to December of the previous year, in %</td>
<td>12,5-13,0</td>
<td>11,0</td>
<td>9,5</td>
</tr>
<tr>
<td>4</td>
<td>Industrial output growth rate, in %</td>
<td>6,5</td>
<td>6,7</td>
<td>7,0</td>
</tr>
<tr>
<td>5</td>
<td>Growth rate of agricultural, forestry and fishery production, in %</td>
<td>4,0</td>
<td>4,1</td>
<td>4,2</td>
</tr>
<tr>
<td>6</td>
<td>Growth rate of retail turnover, in %</td>
<td>5,6</td>
<td>5,7</td>
<td>6,0</td>
</tr>
</tbody>
</table>
Table 2. (The new forecast). Forecast of the main macroeconomic indicators of development for 2021 and target values for 2022-2023, billion soums.

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<td>1</td>
<td>Gross Domestic Product, billion soums</td>
<td>688,936</td>
<td>843,191</td>
<td>985,377</td>
</tr>
<tr>
<td>2</td>
<td>Growth rate of gross domestic product, in %</td>
<td>5,1</td>
<td>5,8</td>
<td>5,4</td>
</tr>
<tr>
<td>3</td>
<td>Consumer price index to December of the previous year, in %</td>
<td>9,0-10,0</td>
<td>10,0-11,0</td>
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According to the Ministry of Finance, the main parameters of the state budget developed based on the following main fiscal objectives:

- Promoting gross demand in the economy in the context of a reduction in external demand and global economic activity in 2020-2021, the competitiveness of the economy, investment attractiveness, business activity, the continuation of fiscal policy aimed at promoting exports;
- Ensuring stability of the state budget and maintaining the size of public debt at a moderate level in line with international standards, reduction of the consolidated budget deficit in the medium term to less than 2% of GDP ensuring sustainable growth of state budget revenues and the principle of fair taxation, as well as the regulation of tax exemptions;
- Maintaining the social orientation of the state budget. In particular, financing important programs aimed at the development of the education system, health care, formation of funds necessary to combat the pandemic coronavirus;
- timely and full funding of wages and related payments, pensions and benefits, ensuring their growth not lower than the rate of inflation;
- social support and increase of employment of the population, reduction of poverty and strengthening the targeting of social protection;
- financing state programs aimed at the conservation and efficient use of water and land resources, energy saving, nature and environment protection, improvement of environmental conditions and other important state programs;
- Increasing the efficiency and effectiveness of public expenditures by increasing the responsibility of the participants in the budget process;
- Conducting inter-budgetary relations aimed at increasing the revenue base and stimulating the efficiency of expenditures of local budgets;
- Increasing budget transparency and ensuring completeness of budget coverage.

Based on these targets, the consolidated state budget revenues in 2021 will amount to 178.5 trillion soums, which is 12.3% more than the projected income for this year, but 3.5% less than the initial target for 2021. Consolidated expenditures excluding the cost of state programs due to the external debt will amount to 203.8 trillion soums, which is 25.5% more than projected expenditures this year and 5.6% more than the original targets[5].
CONCLUSION.

Revenues of state trust funds planned at 26.2 trillion soums, expenses - 40.7 trillion soums. In this case, the allocation of transfers of 15.9 trillion soums from the national budget provided.

As a result, next year state budget and state trust funds budgets planned with the deficit of 17.2 trillion soums or 2.5% of projected GDP.

In order to increase the budget coverage and ensure completeness in accordance with the international standards of public finance management, it proposed to include the planned expenditures state programs from 2021 into the consolidated budget at the expense of the external debt. In 2021, these expenditures projected at 12.1 trillion soums [1].

For example, $31.5 million from the World Bank planned to improve emergency medical care, as well as $25.2 million from the Asian Development Bank to improve primary health care reflected in the consolidated budget.

Taking into account the above, the upper limit of the consolidated budget deficit for 2021 including the state budget, state trust funds, FRRU. As well as costs associated with the implementation of state programs at the expense of external debt is provided at 37.4 trillion soums or 5.4% of GDP, 1.6% point below the expected consolidated budget deficit for the current year, said the Finance Ministry.

The deficit of the state budget and state trust funds compensated by attracting public domestic and foreign debt and the balance of budgets at the beginning of the year, the FRDRU deficit - at the expense of its own funds.

In addition, it established that the size of the balance of public debt attracted on behalf of and under the guarantee of Uzbekistan could not exceed 60% of GDP for the current year. At the same time, in 2021 the limit of net new annual agreements on raising internal and external debt on behalf and under the guarantee of Uzbekistan planned to be $5.5 billion. $5 billion - external, 0.5 billion - domestic debt, of which $2.2 billion - to finance the state budget deficit (including domestic debt - 5 trillion soums), $3.3 billion - to finance investment projects [1].

The official website of the Ministry of Finance will provide information on the allocated funds from the state budget and their implementation in the context of budget organizations and recipients of budget funds, as well as information on the status and dynamics of the national debt.

REFERENCE

3. https://lex.uz/ru/docs/4966575