

BUDGET POLICY DEVELOPMENT TRENDS IN UZBEKISTAN AND ANALYSIS OF ITS CURRENT STATE

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ABSTRACT

The article examines the legal framework for the formation of budget policy. Current trends in the formation of budget policy, specific features were identified and evaluated. The current trends in budget policy have been analyzed economically and legally. The conclusions are formulated due to the research.

Keywords: Budget, Budget Policy, Revenue Allocation, Finance, Budget Policy directions.

INTRODUCTION

It is well known from historical experience that the essence of budget policy is determined by the fact that budget expenditures in this area are fulfilled by the state in fulfilling its tasks. In its turn, the state will seek to ensure economic balance through the use of budgetary funds. It is known that in the function of the financial category there is a process of distribution (redistribution). In the financial system, a portion of the country's gross domestic product is allocated to the budget system through taxes. At the same time, taxes paid by legal entities and individuals to the state at the expense of their own income and property - their taxes are transferred to the state. As a result, the funds allocated by the state through the redistribution function are redistributed through the budget. These funds will be used by the state to finance the tasks of peace, social stability and economic support in the country.

Therefore, there is a need for more effective use of funds through optimization of government functions within budget expenditures. In our opinion, it is important to improve these tasks, not by the amount of financial resources, but on the principles of functioning of market mechanisms. Because of lack of funds, it is not advisable to reduce tasks. Optimal allocation of budget expenditures, allocation of funds to the areas reflecting current issues reflects the priorities of budget policy.

LITERATURE REVIEW

Scientists and researchers from Uzbekistan have made their own conclusions in financing social sector. In particular, Rakhmonov (2018) emphasizes the need to develop human capital as a criterion for social sector financing. In particular, "Education and healthcare financing are very important in financing social sector. In particular, the stabilization of these areas will create conditions for the development of human capital. In general, human capital development financing is an opportunity for investment in education and healthcare and, as a consequence, to create innovation for economic growth".

Another researcher Sharapova (2018) noted that the use of preventive and monitoring methods to improve health care spending in the social sector to a new level and to finance the material and technical base at the expense of budget funds. She also suggested the provision of healthcare services through the private sector.

Researcher Odilov (2017) recommends that the use of budgetary funds in social finance should focus on:

First, the efficient use of budget funds for budgeting of social expenditures in the country. It is necessary to effectively organize the initial, current and last (next) control on each sector of the social sphere and to conduct periodic replacement of the staff responsible for this supervision.

Secondly, in order to effectively manage social expenditures in the country, reduce the share of budget organizations' budgetary funds, it is necessary to develop a legal framework that will regulate and control the flow of extra-budgetary funds based on the activities of budget organizations.

It should be noted that while Rakhmonov (2018) approaches human capital financing from the perspective of human capital, Sharapova (2018) focuses on the specifics of the budget, focusing on healthcare issues and strengthening supply chain management base. Odilov (2017) proposes that there is effective financial control over the use of budget expenditures in the social sphere. At the same time, he made conclusions in favor of periodic replacement of supervisors.

RESEARCH METHODOLOGY

A systematic review of the literature is carried out to study the theoretical foundations of budget policy. It examines the scientific conclusions made by foreign and national scientists in this area and forms independent approaches.

ANALYSIS AND DISCUSSION OF RESULTS

Consistency of the activities of the international financial market with the budgetary policy

The implementation of budgetary policy in the country contributes to social stability as well as the economy. Significant changes in fiscal policy in our country can be explained by the fact that since 2016 it has reached a new level. The budget was surplus in 2005-2016, and in 2018 it was implemented with a deficit. This trend can be attributed to the changing trends in budget spending. Specifically, Budget deficit amounted 646.4 million soums in 2018, Budget deficit planned to 4490.8 million soums in 2019. It is not a mistake to say that the deficit is related to the increase in budget expenditures and liquidation of extra-budgetary funds.

These trends are directly related to the following changes:

1. Adoption of the Decree of the President of the Republic of Uzbekistan dated June 29, 2018 No P-5468 "On the Concept of Improvement of the Tax Policy of the Republic of Uzbekistan" The following changes have occurred in budget revenues:

- i. introduction of a single individual income tax rate of 12% for all citizens, of which 0.1% will be directed to individual pension accounts;
- ii. abolition of insurance deductions from the income of citizens in the form of wages to the extra-budgetary pension fund;
- iii. To establish a single social payment to the extra-budgetary pension fund at a rate of 25 percent for legal entities (with state share) and their structures, as well as to reduce this rate from 15 percent to 12 percent for other legal entities (private businesses);

- iv. abolition of mandatory deductions from the turnover (revenue) of legal entities to the state ad-hoc funds;
- v. reduction of corporate income tax rates from 14% to 12%, for commercial banks - from 22% to 20%;
- vi. reduction of the income tax rate from 10% to 5% on dividends and the rate of income tax in the form of interest;

Reforms to the above-mentioned decree provide for the optimization of budget revenues. The purpose of these changes is also to reduce the share of the informal economy and to register them as taxpayers.

2. Decree of the President of the Republic of Uzbekistan dated December 26, 2018 No PP-4086 "On forecast of main macroeconomic indicators and parameters of the state budget of the Republic of Uzbekistan for 2019 and budgetary plans for 2020-2021" has changed the followings:

Some of the funds that have been operating in the form of extra-budgetary funds until December 2018, which have been liquidated since 2019, could have a significant impact on the increase in budget spending. In particular, the Fund for the Development of Material and Technical Basis of Off-Budget Education and Medical Institutions, the Fund for Reclamation of Irrigated Lands under the Cabinet of Ministers of the Republic of Uzbekistan, and the Aral Sea Region Development Fund under the Ministry of Finance of the Republic of Uzbekistan were liquidated. As a result of these changes, the need for budgetary funds will increase.

Also, with the transfer of expenditures of the Republican Road Fund under the Cabinet of Ministers to the State Committee for Roads of the Republic of Uzbekistan, there was an urgent need for funding from the budget.

In our opinion, with the adoption of the above two documents there will be an increase in the demand for budget expenditures. Consequently, with the cancellation of revenues (compulsory deductions from the turnover) of extra-budgetary funds, the expenditure of these funds will be financed from the budget. First of all, it is due to the transfer of the Road Fund to the State Budget Committee. Secondly, the pension fund's spending in 2019 will be \$ 4.7 trillion. soums (Resolution, 2018).

It is worth noting that the budget deficit planned for 2019 is 95% of the budget subsidy for the extra-budgetary pension fund. In summary, specific changes are being made in the implementation of fiscal policy.

Also, one of the practices that has not been used in the country experience is the issue of Eurobonds issue in financing budget expenditures.

Decree of the President of the Republic of Uzbekistan dated July 21, 2018 № PP-3877 "On additional measures to diversify the sources of external financing" provides for the organization of issuance and placement of sovereign bonds. As a result of the actions specified in this resolution, 1.0 bln. soums worth of Eurobonds was created. Out of this, 500 billion soums short-term (5 years) and 500 bn. Soums long-term (10 years) bonds are placed on the London Stock Exchange.

Table 1. Terms of placement of proceeds from placement of Eurobonds of the Republic of Uzbekistan in deposits of commercial banks through auctions (Resolution, 2019)

million US dollars				
Deposit duration	Maximum Deposit amount	Minimum annual interest rate	Term of interest payments	Term of deposit repayment
5 years deposit	459,6	5,25%	every 6 months (February 10 / August 10)	10.02.2024
10 years deposit	429,6	5,875%	every 6 months (February 10 / August 10)	10.02.2029
Total	889,2	-	-	-

The implementation of this practice represents a new stage in budget policy. As a continuation of these processes, the Decree of the President of the Republic of Uzbekistan # PP-4258 of April 2, 2019 "On the effective use of funds from the placement of the first sovereign international bonds of the Republic of Uzbekistan" was adopted. According to it, the Eurobonds will be allocated to the economy of Uzbekistan. In particular, the following procedure is provided:

1. 889.2 million US dollars is to be placed in commercial banks' deposits through auction bidding under the following conditions:

It will create specific conditions for spending by increasing the share of tax-free revenues in the budget. This will certainly optimize the tax burden, as well as ensure the sustainability of financing. Given that the interest rates paid to investors by means of London Stock Exchange are 4.75% and 5.375%, respectivelyⁱ, there is a 0.5% annual budget revenue from each deposit. This amounts to an average of 4.5 million US dollar represents the receipt of tax-free budget revenues.

2. \$ 20 million to the JSCB "Agrobank" provided by the Ministry of Finance of the Republic of Uzbekistan for the opening of a credit line as subordinated debt (Table 2):

Table 2. Opening of a credit line as subordinated debt by the Ministry of Finance of the Republic of Uzbekistan to the JSCB "Agrobank" from the placement of international bonds of the Republic of Uzbekistan (Regulation, 2019)

10 year credit line			
Credit amount	Annual interest rate	Term of interest payments	Repayment term
20	5,875%	every 6 months (February 10 / August 10)	10.02.2029

ⁱ <https://www.gazeta.uz/uz/2019/02/14/yeurobondlar/>

Opening of credit lines in banks at the expense of budgetary funds in the form of subordinated debt and optimization of the budget policy on its basis deserves special mention. From these funds, budget revenues averaged \$ 1.17 million US dollars annually.

89.9 million US dollars was allocated into Navoi Mining and Metallurgical factory as an exception by the Ministry of Finance of the Republic of Uzbekistan as a budget loan in foreign currency under the following conditions:

According to Articles 157-159 of the Budget Code of the Republic of Uzbekistan, resident legal entities may be granted budget loans. It is stated that the budget loans are provided on the basis of repayment, payability and purpose. In our view, it is necessary for the Navoi Mining and Metallurgical Factory to use the budgetary funds allocated to the state enterprise and to determine its calculations in the appropriate order.

Table 3. Conditions for allocation of budget loans in foreign currency to the State Enterprise "Navoi Mining and Metallurgical Factory"

Total loan amount	5 year loan				10 year loan			
	The volume	Annual interest rate	Term of interest payments	Period of repayment	The volume	Annual interest rate	Term of interest payments	Period of repayment
89,9	39,95	5,75%	every 6 months (February 10 / August 10)	10.02.2024	49,95 6,375%	49,95 6,375%	every 6 months (February 10 / August 10)	10.02.2029

In summary, budget policy trends can be seen as follows:

- tend to decrease the tax burden on the formation of budget tax revenues;
- With the abolition of mandatory contributions to extra-budgetary funds, the costs of extra-budgetary funds are covered by budget subsidies;
- the formation of a significant volume of tax-free revenues to the budget;
- The trend of attracting foreign funds to the budget is entering a new phase.

Modern trends in budget policy

As we continue our research, we will analyze the social expenditures of the budget. The share of social sector spending in the state budget is about 60%. For example, in 2012 this figure was 59%, and in 2019 it will be 54%. In other words, it went up from 13 trillion soums to 58 trln. soums. This reflects a 4.8-fold increase in expenditures (Table 4). In turn, total budget expenditures increased by 5.1 times. It should be noted that while budget expenditures increase, spending on social services remains unchanged. This implies an increase in the share of the private sector or other sector spending in securing social spending.

Table 4. Budget and social expenditures of the Republic of Uzbekistan

bln. soums

Indicators	By years							
	2012	2013	2014	2015	2016	2017	2018	2019 (plan)
Total expenses	20882,0	25833,7	31425,4	36257,3	40911,3	49343,7	79736,1	107118,4
Social sphere and social support of the population support costs	12299,9	15167,8	18493,7	20447,1	22766,0	27009,3	-	58012,1
of which:								
Education	7130,4	8803,3	10673,5	12162,2	13831,7	15979,6	19957,1	28394,3
Healthcare	3024,9	3709,9	4507,2	5218,5	5811,6	7330,0	8406,5	12078,0
Culture and sport	223,4	287,4	361,5	387,5	460,6	750,2	1683,6	1690,1
Science	137,4	164,7	187,0	216,7	238,2	275,5	-	801,0
Social security	86,9	106,4	126,2	147,5	161,1	435,3	-	1514,0

In general, the change in the period up to 2016 with a thrilling harmony, since 2017 reveal a sharp turns should be noted that in all areas. Also, expenditures for culture and sports by 2015 were relatively low compared to the previous year (Figure 1).

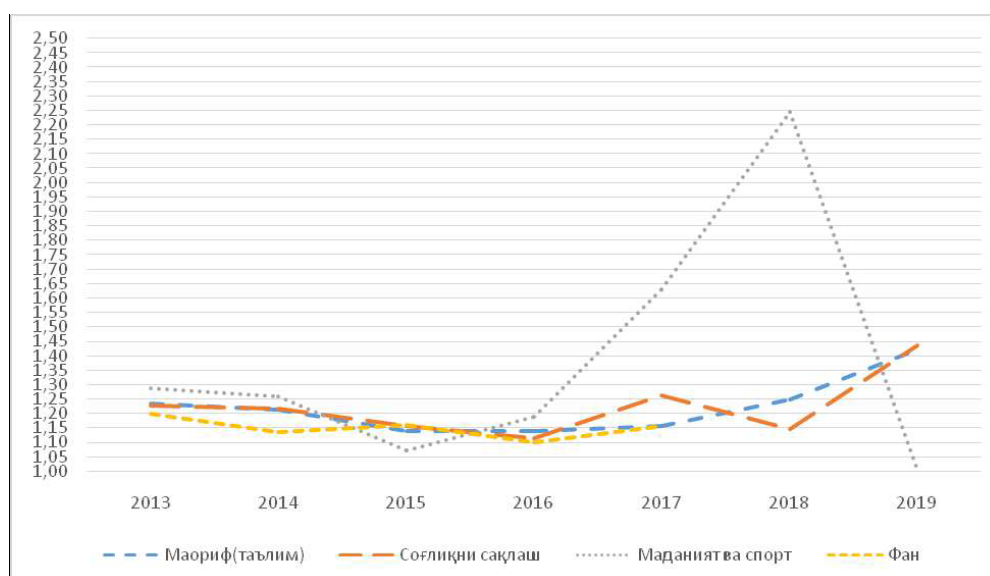


Figure 1. Trends in Budget Policy Changes for 2013-2019
(percent change over the past year).

Considering the tendency of budget expenditures for education, it is worth noting that there is a significant growth. It can also be noted as a sphere with a stable trend. This is because the trend of change should be taken into account, although growth in education was not high until 2017, but in 2017-2019 there was a growth trend compared to the previous year. These changes are directly related to the increase in the salaries of the teaching staff.

For example, amendments to the Decree of the Cabinet of Ministers of the Republic of Uzbekistan dated December 21, 2005 № 275 "On approving the improved system of remuneration of public education employees" were made by Decrees of the Cabinet of Ministers of the Republic of Uzbekistan # 680 dated August 22, 2018 and #146 of February 19, 2019. This has been a major factor in the increase of budget expenditures. According to these, the salaries of public education workers increased on average by about 20 percent. Secondly, amendment to the Decree of the Cabinet of Ministers of the Republic of Uzbekistan dated August 1, 2008 № 164 "On approval of the improved system of labor compensation for employees of higher educational institutions" was made by the Decree of the Cabinet of Ministers of the Republic of Uzbekistan dated August 15, 2018 № 662, of which the salaries of professors and teachers increased by 2 times. As a result, significant changes in budget expenditures for education have been created.

In our opinion, significant changes in the budget policy for 2016-2019 are directly related to the priorities of the Actions Strategy adopted by the Decree of the President of the Republic of Uzbekistan dated February 7, 2017 № 4947. Therefore, it is not a mistake to say that the trend in budget expenditure development has been a period of rapid growth in comparison with changes in the first 15 years of the century. It is also noteworthy that the adoption of regulations to increase the share of extra-budgetary financial resources with the increase of budgetary funds in social expenditures.

CONCLUSIONS

The following conclusions can be drawn from the research:

1. there is a tendency to increase the share of tax-free revenues in the implementation of budgetary policy;
2. practice of using Eurobonds to attract foreign investors' funds to the budget has been started;
3. tendency of financing the implementation of socially significant activities at the expense of budget expenditures is remaining;
4. One of the main factors for the increase in budget expenditures is the increase in wages through appropriate decrees and resolutions.
5. Accelerated involvement of extra-budgetary funds for financing education and healthcare through public-private partnerships.

RECOMMENDATIONS

It is advisable to carry out the following budget policy recommendations:

1. Preventing commercialization of social services in the implementation of budgetary policies;
2. establishing an indicator-based system for budget financing and, thus, measuring each budget's expenditure;
3. establishing a correlation between all four groups in the cost estimate and avoiding the dominant nature of the specific expenditure framework;

4. Focusing on the principle of targeting in ensuring the efficiency of social expenditures.
5. We believe that the practical application of the above-mentioned recommendations will give the desired results.

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