



THE CURRENT FEATURES OF FINANCIAL DEFICIT OF THE STATE BUDGET OF THE REPUBLIC OF UZBEKISTAN

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Abstract

This article reveals the essence of the state budget deficit and its methods of its financing and the stages of development are being considered. In Uzbekistan, since the acquisition of independence and to the present day there is a problem of state budget deficit. In our country at present, to finance the state budget deficit, mainly the public external debt is used. In this direction domestic opportunities are little used. This article, using the method of comparative analysis given the author's (assessment) evolution of the current state of reducing the state budget deficit of the country.

Keywords: State, law, functions, budget, taxes, expenses, deficit, domestic government debt, government external debt, government debt obligation.

Introduction

The necessary financial basis is required for the political, economic and social tasks assigned to the state to be full, on time and positively resolved. The central link of this financial framework is the state budget. Improving the state finances, and ensuring the proportionality of its incomes and expenses is becoming more important at the current stage of reforms in the budget and tax system implemented in the countries. At present, the problem of the state budget deficit is a general economic situation that has attracted the attention of not only economists, but also the governments of developed countries as well as poor or developing countries in the world. In particular, this problem is becoming serious in the face of measures taken to fight the ongoing coronavirus pandemic and the consequences of a sharp decline in economic activity around the world.

Many countries in the world, including developed economies, are putting huge funds and effort into saving their economy, especially the finance and banking sector, to stimulate economic growth and investment activity, to restore production rates, to increase population employment, and incomes and support business entities, during coronavirus pandemic. This, in turn, has led to large budget deficits and public debts in many countries of the world, including Uzbekistan, and has led to financial imbalances.

In the Republic of Uzbekistan, providing the state budget with enough amount of income is being solved with difficulties. The implemented measures alleviation the tax burden in the following years also are influenced negatively in the state budget. The complications are lead to negative impact on the successful performance of the

governmental tasks before the state. Therefore, the execution of the state budget rationally and efficiently, without its excessive deficit is a very urgent issue.

Research Methodology

The methods of logical observation, critical study of literature, comparison, and systematic and economic analysis were used, to conduct the research and justify the results. The literature and articles of foreign and local economists were analyzed, as a methodological basis of the article. The official data of the Ministry of Finance and Economy of the Republic of Uzbekistan and practical data from the official website of the World Bank were used in the analysis of the current article.

Importance of the topic

Analyzing the problems and reasons for the state budget deficit in Uzbekistan, in developed and developing countries and research in reducing the budget deficit allows us to prevent mistakes that may be made in this area in the future.

Analysis and results

The issue of budget deficit and its management is very important in the management of the state budget. The deficit of the state budget in the country hurts the successful performance of the tasks assigned to the state. It should be noted that the state budget deficit in developed countries does not always mean a negative situation. In 1929 - 1933, it was demanded to develop and implement global measures to get out of the world economic crisis. It was under the direct influence of the world economic crisis that the British economist John Maynard Keynes founded the theory of a new regulated economy. The theory of public finance began to be studied as a component of theories of employment and income, and fiscal policy, as an integral component of the economy as a whole. The main idea of J.M. Keynes is proposed to increase government spending and "debt financing" if these funds are not enough. Followers of his idea called this theory "deficit financing". It should be noted that before J.M. Keynes, the proportionality of state budget revenues and expenses was seen as a negative situation only. J.M. Keynes put an end to these worldviews [5].

There are different views on the methods of financing the budget deficit. According to I.A. Pogosov, "there are basically two ways of financing the state budget deficit:

- firstly, financing from public debt. State debts are internal sources, the deficit of the state budget is covered only at the expense of domestic sources, and external sources, in which the deficit of the state budget is covered by the international loans from foreign countries, international financial institutions, and the world's largest commercial banks;
- secondly, at the expense of issuing new money into circulation" [8].

According to the Uzbek economist U.A. Burkhanov, "budget deficit financing is divided into two large groups: emission and debt financing. Along with these two methods of financing the budget deficit, another non-inflationary method is used to finance a certain part of the deficit through the sale of state assets. Each case of financing the budget deficit has different effects on the economy, therefore, it is necessary to analyze the sources of financing. If we further clarify the sources of deficit financing, we can see that there are the following traditional sources that fall into one of the two groups above:

1. Borrowing from the Central Bank, or issue financing of the deficit (cash financing);
2. Borrowing from commercial banks (debt financing);
3. Borrowing funds from domestic non-banking sectors (debt financing);

4. Use of foreign exchange reserves or borrowing from foreign countries (debt financing);

5. Sale of state property and other non-inflationary sources [10].

In order to reduce the budget deficit, the government can use one or more of the methods mentioned above. Each of the methods used to reduce the budget deficit has a different economic nature, therefore, they can have different and in some cases opposite effects on the financial situation in the country. Incorrect budget deficit reduction policies by the country's government can lead to an increase in the existing deficit and, as a result, to a worsening of the economic situation, as well as to discontent among the population. In our opinion, regardless of the sources of financing the state budget deficit, we can distinguish the following six types of its regulation:

1. Taking loans from the country's central bank to finance the state budget deficit, i.e. issuing additional money for circulation;

2. Use of gold-currency reserves;

3. Reducing the size of state budget expenditures;

4. Increasing state budget revenues, i.e. introducing new types of taxes into practice or increasing the rates of existing taxes;

5. Sale of state property to local and foreign investors;

6. Borrowing from residents of the country, local economic entities, governments of foreign countries, international financial organizations and large foreign commercial banks.

We present the types of financing of the state budget deficit in the figure below.

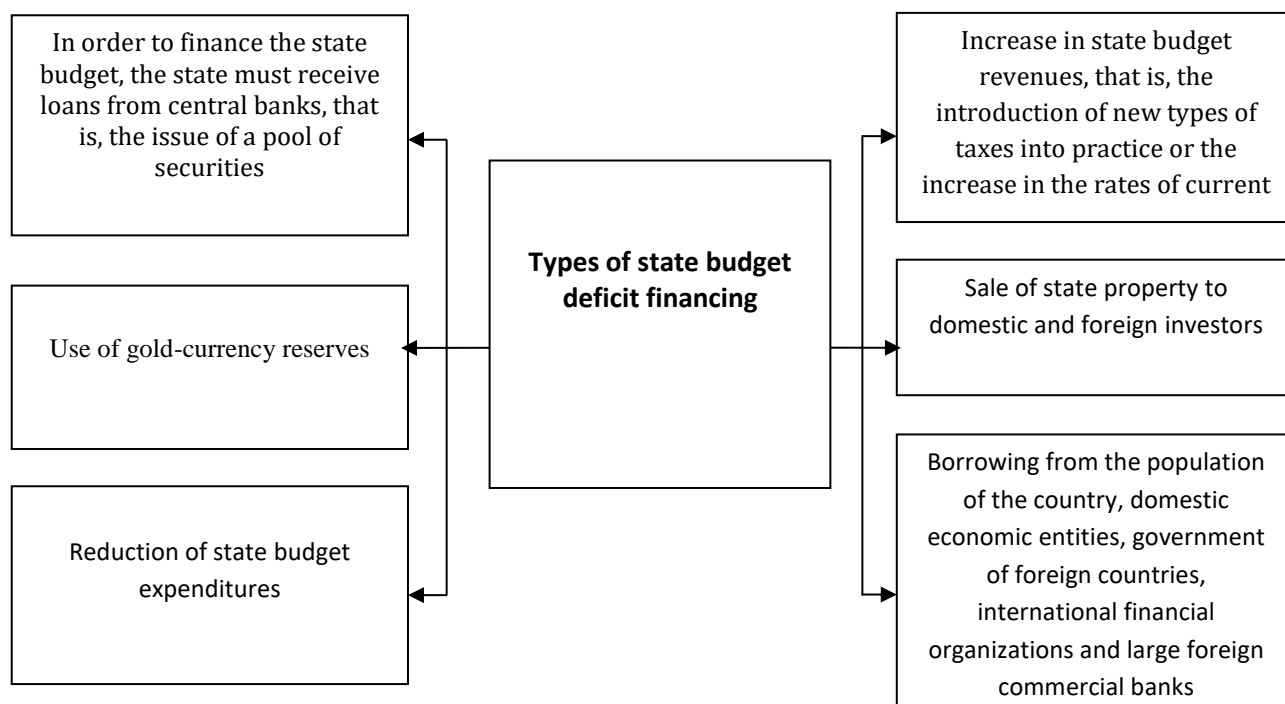


Figure 1. Types of state budget deficit financing¹

The government of the Republic of Uzbekistan increased state budget revenues and ensured their regular receipt, as a result of efficient and targeted spending of state budget expenses, budget deficit did not exceed the set standard level. However, despite the positive

24¹ The picture was prepared by the author.

results achieved, there is still a problem of state budget deficit in the Republic of Uzbekistan. We can present this situation in the table below.

Table 1

The state budget of the Republic of Uzbekistan Income, expenses in 2000-2022 and deficit information²(billion sum)

№	Years	Budget income	Budget expenses	Budget deficit	
				in summa	with respect to GDP %
1	2000 y	909,2	943,2	34,0	1,1
2	2010 y	13221,0	13550,0	329,0	0,5
3	2016 y	40810,1	41400,0	589,9	0,4
4	2017 y	48476,0	49090,0	614,0	1,0
5	2018 y	62500,0	74000,0	11500,0	1,8
6	2019 y	112200,0	118008,0	5808,0	1,1
7	2020 y	132900,0	144100,0	11200,0	1,9
8	2021 y	178712,0	216246,6	37534,4	5,4
9	2022 y	254582,5	280128,7	25546,2	3,0

The analysis of the data in the above table shows that the absolute amount of the budget deficit in the republic is increasing year by year, while its ratio to the GDP has a tendency to grow. We present the dynamics of the state budget deficit in the Republic of Uzbekistan in the diagram below.

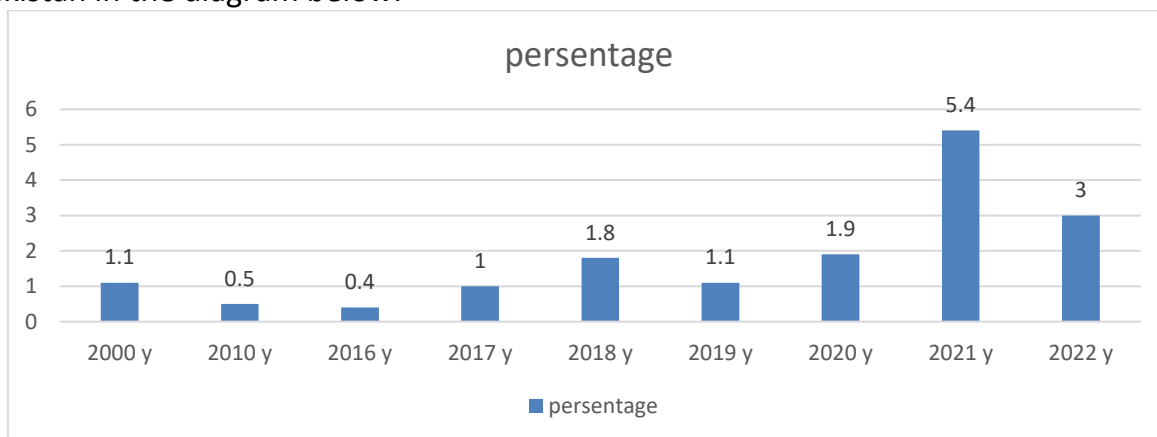


Diagram 1. Dynamics of the state budget deficit in relation to GDP in the Republic of Uzbekistan³

In this article, we explain that some of the methods mentioned above are used in Uzbekistan to finance the state budget deficit.

Since the 70s of the last century, the funds obtained from the privatization of state property has been used to reduce the state budget deficit. The large-scale "reprivatization",

² It was prepared by the author based on the information of the Ministry of Finance and Economy of the Republic of Uzbekistan.

³ It was prepared by the author based on the information of the Ministry of Finance and Economy of the Republic of Uzbekistan.

the sale of state property and the transformation of state-owned enterprises into joint-stock companies, was carried out in the USA, Great Britain, Germany and other economically developed countries. US President R. Reagan and British Prime Minister M. Thatcher paid great attention to the privatization of state property and the establishment of joint-stock companies and private enterprises based on them. In international practice, this economic policy carried out is called "Reaganomics" and "Thatcherism". [11] As a result of this policy, private enterprises established on the basis of privatization are become competitive and able to finance new investments in them. Most importantly, huge amounts of money from privatization were used to reduce the state budget deficit. In the Republic of Uzbekistan, major measures are being implemented in recent years to sell state property and transform state-owned enterprises into joint-stock companies. "Another direction of structural reforms is to reduce the participation of the state in the economy. We have started comprehensive privatization of a number of enterprises, involving international financial and legal advisors, in order to sell public assets openly and efficiently. In the coming year, "Fergana Azot" and "Dehkanabad Kaliy" factories, "Coca-Cola Ichimligi" enterprise, "Bildirsoy" and "Chorvoq" resorts, "Ichan Qala" and "Hayat Regency" hotels, "Poytakht" business complex, Alcohol, Oil - the state stake in 83 large enterprises in sectors such as oil will be put up for sale. In general, the number of enterprises with a state share will be reduced by at least 3 times in the next two years." [1] This factor means that the republic should implement clearly defined measures to increase revenues from the privatization of state property and to cover the state budget deficit in non-inflationary ways.

One of the ways to reduce the state budget deficit is borrowing by the country's government, citizens, national economic entities, governments of foreign countries, international financial organizations and large commercial banks. It should be noted that this method of reducing the state budget deficit is considered the most sensitive and, at the same time, modern method. The government of the country using this method attracts funds in national and foreign currency by issuing government securities on its own behalf. In order to reduce the deficit of the state budget, the central government in the member countries of the European Union is actively working to issue government bonds and place them among foreign investors [12]. According to article 152 of the new budget code, it is envisaged to attract funds from the state and from abroad [2].

In the newly adopted budget code in the Republic of Uzbekistan, special attention is paid to the types of funds to be attracted to reduce the state budget deficit. According to Article 153 of the new code, the types of funding by the State are determined. One of them is debt obligations on state securities issued on behalf of the Republic of Uzbekistan. [2]

According to paragraph 32 of the Presidential decree-4086 of the President of the Republic of Uzbekistan dated December 26 2018 year "On the forecast of the main macroeconomic indicators of the Republic of Uzbekistan for 2019 and the parameters of the state budget and budget targets for 2020-2021", the Ministry of Finance of the Republic of Uzbekistan was appointed to issue and place sovereign bonds of the Republic of Uzbekistan in the amount of not less than 500 million US dollars with a maturity of 5 years or more. the Republic of Uzbekistan placed Eurobonds with maturities of 5 and 10 years in the amount of one billion US dollars on the London Stock Exchange for the first time in its history on february 14, 2019. The yield of 5-year Eurobonds with maturity is 4.75% per annum and maturity is 2024. 10-year Eurobonds yield 5.375% per annum and maturity is 2024. It should

be noted that the practice of using foreign debt to reduce the state budget deficit in non-inflationary ways continues [13].

The Law of the Republic of Uzbekistan 813 dated December 30, 2022 "On the State Budget of the Republic of Uzbekistan for 2023" was adopted. The main difference of this law from the previous ones is that it sets the limited amount of the budget deficit of the Republic of Uzbekistan for 2023 in the amount of 3 percent of the gross domestic product. It is determined that additional expenses that may lead to exceeding the limited amount of the deficit of the consolidated budget of the Republic of Uzbekistan will be carried out only when there is an additional source of income or at the expense of reducing other expenses. In this law, it was established that the amount of public debt attracted on behalf of the Republic of Uzbekistan and under the guarantee of the Republic of Uzbekistan should not exceed 60 percent of the annual forecast indicator of the gross domestic product. The limited volume of new agreements signed annually on attracting foreign debt on behalf of the Republic of Uzbekistan (the Government of the Republic of Uzbekistan) and under the guarantee of the Republic of Uzbekistan is 4.5 billion US dollars for 2023. The finances are planned to be used to support of the State budget of the Republic of Uzbekistan, including the State budget deficit of the Republic of Uzbekistan for financing with amount of 2.0 billion US dollars, for financing investment projects - 2.5 billion US dollars. The limited net volume of state securities to be issued on behalf of the Republic of Uzbekistan for 2023 is set at 17.0 trillion sums. (as of 01.08.2023, 1 usd = 12,000 uss) It is determined that the state securities of the Republic of Uzbekistan issued during the year and paid off in the current year will not be included in the limited net volume [3].

The above-mentioned factors indicate that currently there are the following directions for reducing the deficit of the consolidated budget of the Republic of Uzbekistan at the expense of internal sources:

-reducing state budget expenditures. However, the economic and social reforms conducted in the country under the leadership of the President of the Republic of Uzbekistan Sh.M. Mirziyoyev indicate that there is no possibility of using this direction in the near and far future;

-increasing the income of the state budget. In this direction, measures to reduce the tax burden are being implemented in the Republic of Uzbekistan in the following years, and the current tax rates are being reduced. In our opinion, the policy carried out in these directions will lead to an increase in the deficit of the state budget of the Republic of Uzbekistan.

Summary

Currently, we can consider that the best practices of developed economies in the world are not fully used in the financing of the state budget deficit in the Republic of Uzbekistan. In our opinion, it would be appropriate to implement the following measures to finance the state budget deficit in our republic:

- in the financing of the state budget deficit in non-inflationary ways, it is considered appropriate to reduce the volume of external debts of the state and increase the volume of internal debts;

- it is necessary to expand the structure of investors of state securities in our republic. At present, only local commercial banks and large state-owned enterprises are investors in government securities. According to the practice of developed countries (USA, Japan, GFR

and others), insurance companies operating in our country should be included in the list of investors of state securities in our republic.

We believe that the implementation of the above proposals can have a positive effect on financing the state budget deficit in our country in non-inflationary ways. From the above, it can be concluded that the economic and social policy conducted by the state plays a very important role in maintaining a reasonable balance between the income and expenses of the state budget in the conditions of the market economy and has a direct impact on it. Therefore, proper management of the state budget deficit, in-depth analysis of the factors influencing it, and comprehensive study of them serve as the most important factors of development. This situation leads to an increase in the prestige of the country in the world community, and an increase in the confidence of the countries of the world towards Uzbekistan.

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