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ENSURING FINANCIAL STABILITY IN THE MEDIUM-TERM SUSTAINABILITY OF THE LOCAL BUDGET IN UZBEKISTAN

Abstract: This article analyzes the state of regulatory documents and their implementation in Uzbekistan for 2017-2021, aimed at the integrated economic development of the regions, ensuring the financial stability of local budgets, and preventing budget subordination to budgets with high budgets. Developed suggestions and recommendations to improve existing problems, based on the experience of developed foreign countries.
Key words: Economic development of the regions; vertical matching; horizontal matching; local budgets; financial stability of local budgets.
Language: English

Introduction

JEL Classification: H1, H2, H5.

A new stage of economic development in Uzbekistan began with the adoption of the Strategy of actions for the development of the Republic of Uzbekistan for 2017-2021. At this stage, the focus is on the integrated socio-economic development of the regions. In particular, the main goal of the strategy for the development and liberalization of the economy is to determine the goals and objectives of the State budget of the Republic of Uzbekistan, as well as budget allocations, sovereignty of the state budget and the most important budget revenues [1].

In the economic sphere, large-scale changes have been implemented, the most important step of which was the introduction of free conversion of the national currency, providing, first, the conditions for Uzbekistan to fulfill its obligations and repatriate the income of foreign partners, increase the investment attractiveness of the country.

Completely new principles and mechanisms for the formation of the State budget were introduced; measures were taken to ensure the transparency of its revenues and expenses. Measures have been taken to improve the efficiency of public asset management and the use of idle reserves aimed at increasing the budget revenue [2]. As part of this strategy, a conceptually new tax administration procedure has been introduced, with 5.5 trillion left at the disposal of local budgets. soums from overfulfillment of forecast indicators of tax collections, which is 6 times higher than in 2017 and 32 times higher than in 2016 [3].

Main part.
Our study showed that so far there is no single set of methods for assessing the financial situation of local budgets. Many economists, including scientists, publish scientific journals and international conferences, as well as an analysis of industry experts on the economics of income and expenses, their absolute variations, an analysis of comparisons of tax and non-taxable income, as well as high-budget share estimates, analysis of indicators such as share of each type of expenses in total costs.

In our opinion, given the financial development of the region, it is desirable to achieve a set of indicators representing a modern calculation of the economic activity of the region, as well as indicators reflecting economic efficiency.

This, in turn, provides that in 2019, one of the goals of economic development in Uzbekistan will be

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to ensure that "further improvement of the system of efficient use of budgetary funds is a result-oriented indicator of qualitative and quantitative indicators of any program or project financed from the budget" . Financial sustainability should also cover all areas of the region, the dynamics of the formation and development of sectors, the distribution and redistribution of financial resources between sectors of the economy and entities [4].

Today, one of the most pressing socio-economic problems facing the state of Uzbekistan is the creation of an effective mechanism for state regulation of the domestic market. People's trust in the state, in its currency and long-term obligations are the main factors for the sustainable development of the economy. One of the conditions for their stable socio-economic development is to achieve a balance between revenues and expenditures of the local budget. The solution to this problem requires the formation of a sustainable budget system.

The budget system of Uzbekistan is two-tier, consisting of the republican and local budgets (covering the budget of the Republic of Karakalpakstan, the regions and the city of Tashkent, as well as the district and city budgets). The country's budget system is based on centralized budgeting, and, accordingly, there are some restrictions on local budgets in accordance with the current budget legislation. One of these limitations is the deficit of local budgets. The imbalances between revenues and expenditures of local budgets are regulated by higher budgets. In this regard, the assessment of fiscal stability is difficult.

Our study shows that local budgets identified the following issues:

− low collection of tax revenues to local budgets;

− the dependence of lower budgets on top-level budgets and the dependence of a high level of financial support on them;

− incompatibility of cost management of local budgets with their financial resources;

− allocation of fixed assets of local budgets for financing the social sphere, etc.

In general, there are two key types of budgets of varying degrees: vertical and horizontal alignment. Vertical alignment is aimed at the vertical balance of budgets. It implies a clear separation of powers and distribution of responsibility between levels of government. However, in our opinion, in order to solve the problems of ensuring budgetary balance, vertical alignment is best combined with horizontal budget alignment.

Horizontal alignment is a system of providing centralized financial assistance to authorities through the distribution of financial assistance to regions, and entities, in turn, transfer financial assistance to local budgets.

World experience on the problematic topics of scientific research indicates that the horizontal alignment method is also used in foreign countries. For example, in the US, the federal budget provides significant assistance to states in the form of targeted transfers. When distributing targeted financial assistance, formalized methods are used. Target transfers are the transfer of funds from a higher budget to a lower budget for specific purposes. In FY 2018, the federal government is expected to provide about $728 billion in federal financial assistance to state and local governments, covering a wide range of public policy areas, such as healthcare, transportation, income security, education, training, social services, community development and environmental protection[9].

Taking into account the experience of India in terms of the financial stability of the regions, financial assistance is allocated through high budget budgets, where inter-budgetary alignment is carried out by providing assistance to the regions, which combine the provision of financial resources to all states on a single basis, and to specific states with unfavorable social economic situation. In India, there are three types of central government transfers to states:

1) to provide subsidies for financing current expenses;

2) to finance public investment, including in the framework of development projects for specific states;

3) for socially significant projects.

The experience of Austria shows that equalization is carried out through transfers that are exclusively targeted.

Canada's fiscal equalization experience represents the implementation of annual non-earmarked grants to provinces with tax potential below standard. In Canada, the federal and provincial governments are equal partners of the federation in accordance with the constitution, and local governments do not have independent constitutional status.

The system of inter-budgetary equalization in Sweden consists in equalizing income, the purpose of which is to provide citizens with services of the same quality and at the same price throughout the state.

In Denmark, Sweden and Poland, self-government income and expenses are aligned with the state average income / expense. In Denmark, this difference is evened out on a state scale - 45% and an additional 40% to those local governments whose income after the first equalization is below 90% of the average income in the state. In Poland, only local government revenues are equalized.

Sweden has a very high level of equalization, and it reaches 95% of the average income / expense in the state. In Poland, a progressive equalization system is provided for those municipalities whose revenues range from 75% to 92% of the difference with the average incomes in the state, the subsidy is defined as

75%, those municipalities whose incomes are 40% - 75% of the average in the state, moreover, the amount of the subsidy is 80% of the difference, for the same municipalities whose incomes are below 40%, the subsidy is 90% of the difference from the average income in the state. In Germany, in turn, at the land level, the equalization system mainly aligns the differences between self-government incomes per inhabitant. The expenditure part takes into account only the population density of each land. From an analysis of the practice of EU states, it follows that the issue of the leveling level is most often solved by political means and the leveling level is greater in countries with a high level of national development and a low level of territorial differentiation.

On the issue of alignment, openness and transparency have an important place. Even in cases where the alignment is carried out by calculation according to formulas, the latter should be clear and understandable, and the data sources should be objective. In many EU countries, the amount of subsidies, the distribution mechanism or individual elements of equalization are determined in the process of forming the annual budget. In this regard, from the point of view of the development of democracy and decentralization, the role of holding consultations between the government and local governments, as well as their agreement on these issues, is very significant. In Austria, the requirement to carry out consultations on the issues of self-government finance is included in the Constitution, and in France, Greece, Portugal, Latvia, Lithuania and Poland - in the law or in another legal act, in Denmark, Finland and Slovakia - in the general agreement. In Latvia, the rules arising from the law provide for annual negotiations between the government and local governments, which are recorded and submitted to the parliament (diet) together with the draft annual budget law. An independent commission has been set up in Sweden to work out a methodology for distributing subsidies. However, in Hungary and Romania, the amount of the subsidy fund and the distribution method changes

each year and is determined within the framework of the preparation of a certain budget, almost without consultation with self-government associations [4].

Thus, solving the problems of budgetary balance is the most important task. The mechanism of distribution of funds should solve the problems of both vertical and horizontal balance of budgets. And each country chooses a universal mechanism for securing the local budget suitable for them.

Researchers at Junxue Jia University of China, Yongzheng Liu, researchers at Jorge Martinez-Vazquez University, researchers at Boston University Kewei Zhang studied the vertical mismatch between budgets at different levels and local fiscal rules in China. According to the results of studies, it was found that higher levels of vertical fiscal imbalance cause fiscal indiscipline by reducing the tax efforts of local authorities. According to their comments, they said that they used a unique Chinese fiscal institution transferring tax powers on local taxes and divided taxes to two separate bodies (i.e., the local tax bureau and the central tax bureau, respectively) in several ways. We show that local governments respond to vertical fiscal imbalances by reducing their tax efforts on local taxes, but do not do so for shared taxes. In addition, the non-disciplinary effect of vertical fiscal imbalance is absent for extrabudgetary revenues, reflecting the institutional fact that extrabudgetary revenues are not taken into account when determining central fiscal transfers to local governments, thus not creating incentives for local governments to respond in this area [5].

Based on the study and the results of these studies, it can be said that the balance between different levels of budgets and the revision of revenues and expenditures between governments is also important for developing countries.

In order to ensure inter-budgetary balance at the medium-term development stage in Uzbekistan, to ensure equality of income and expenses of lower budgets and to ensure continuous social payments in the regions, targeted budget transfers were introduced:

Table#1. Revenues and expenses of local budgets, and dedicated targeted social transfers [11]

Regions	2018 FY, billion soums			2019 FY, billion soums		
	Revenues	Expenditures	Targeted Social Transfers	Revenues	Expenditures	Targeted Social Transfers
Karakalpakstan	1133,3	1740,0	606,7	2683,5	2683,5	
Andijan	1290,1	2162,1	872,0	1912,7	3292,0	1379,3
Bukhara	1226,1	1458,4	232,3	2266,6	2266,6	
Jizzakh	741,7	1153,8	412,1	1106,2	1836,8	730,6
Kashkadarya	1909,9	2223,5	313,6	3493,7	3793,7	
Navoiy	860,0	999,2	139,2	1495,8	1495,8	
Namangan	1088,4	1953,7	865,3	1784,7	3096,9	1312,2
Samarkand	1637,5	2629,9	992,3	2270,9	4031,8	1760,9

Surkhandarya	1052,1	1879,9	827,8	1657,2	2872,0	1214,8
Syrdarya	535,0	806,3	271,3	736,3	1217,4	481,1
Tashkent	1692,4	2066,8	374,3	3169,0	3169,0	
Ferghana	1588,0	2621,3	1033,3	4038,0	4038,0	
Khorazm	892,6	1411,7	519,1	1232,2	2116,4	884,2
Tashkent city	2378,9	2378,9	-	3236,2	3236,2	
Total:	**18026,0**	**25485,5**	**7459,3**	**31083,0**	**38846,1**	**7763,1**

According to table 1, targeted social transfers, which are introduced from 2018, will be directed to the local budgets of all regions except Tashkent, 7459.3 billion soums, in 2019, 7763.1 billion soums will be directed to the following areas: Andijan, Jizzakh, Namangan, Samarkand, Surkhandarya, Syr Darya and Khorezm.

In fulfilling the tasks set in the medium-term development strategy of Uzbekistan, the goals are set to ensure sustainable financing of the integrated development of territories based on the radical strengthening of the revenue base and decentralization of local budgets, further improving inter-budget relations, strengthening the financial independence of local government bodies and increasing their responsibility for the implementation of specific targeted measures to expand the tax potential by promoting the development of small business and private entrepreneurship, creating new jobs and providing employment, accelerated development of engineering and communications, road transport and social infrastructure.

In the medium term, we reviewed the legal documents adopted by the government to ensure the financial sustainability of local budgets. We want to draw your attention to the analysis of the results of the state budget (see Tab.№2).

Table#2. Execution of local budget revenues [11]

Regions	Approved plan	Completed plan	Execution	Difference	
				(+), (-)	%
Karakalpakstan	1 133 300	1 356 951	2 376 379	1 243 079	210
Andijan	1 290 100	1 290 100	1 708 991	418 891	132
Bukhara	1 226 062	1 190 462	1 383 035	156 973	113
Jizzakh	741 712	758 712	948 320	206 608	128
Kashkadarya	1 909 920	1 909 920	2 341 111	431 191	123
Navoiy	859 994	859 994	1 217 136	357 142	142
Namangan	1 088 412	1 113 412	1 360 012	271 600	125
Samarkand	1 637 531	1 637 531	1 970 792	333 262	120
Surkhandarya	1 052 140	1 052 140	1 378 313	326 173	131
Syrdarya	535 000	593 708	812 180	277 180	152
Tashkent	1 692 422	1 760 422	1 949 310	256 888	115
Ferghana	1 587 979	1 587 979	1 833 042	245 063	115
Khorazm	892 558	892 558	1 106 259	213 701	124
Tashkent city	2 378 949	2 433 949	2 796 470	417 521	118
Total:	**18 026 080**	**18 437 839**	**23 181 352**	**5 155 271**	**129**

According to Table 2, the execution of local budget revenues as a whole in 2018 was executed by 129% or more, by 5 155 271 million soums. Also, in the Republic of Karakalpakstan, the plan was implemented by 210% or 1,243,079 million soums. In Syrdarya region, the plan was completed by 152% or 277 1810 million soums, in Andijan region - by 132% or 418 891 million soums, in Surkhandarya region - by 131% or 326 173 million soums. Leaving local budgets to overfulfillment of the plan for excessive income served them as a motivation to fulfill more than the given plan.

Таблица №3. Execution of local budget expenditures [11]

Regions	Approved plan	Completed plan	Execution	Difference	
				(+), (-)	%
Karakalpakstan	1 740 024	2 135 546	2 681 604	546 058	126
Andijan	2 162 072	2 657 945	2 925 060	267 115	110
Bukhara	1 458 388	1 920 554	2 186 636	266 082	114
Jizzakh	1 153 801	1 586 273	1 848 688	262 415	117
Kashkadarya	2 223 505	2 734 293	2 994 856	260 564	110
Navoiy	999 156	1 267 397	1 571 354	303 957	124
Namangan	1 953 729	2 420 416	2 602 011	181 595	108
Samarkand	2 629 867	3 279 156	3 500 236	221 080	107
Surkhandarya	1 879 906	2 330 232	2 590 652	260 419	111
Syrdarya	806 300	1 088 649	1 184 635	95 986	109
Tashkent	2 066 765	2 720 452	3 023 202	302 750	111
Ferghana	2 621 266	3 133 769	3 314 895	181 126	106
Khorazm	1 411 694	1 718 646	1 835 838	117 192	107
Tashkent city	2 378 949	3 057 170	3 770 427	713 257	123
Total	**25 485 423**	**32 050 498**	**36 030 094**	**3 979 596**	**112**

From table 3 above it can be seen that the expenses on local budgets were met with overfulfillment of 112% or 3,979,596 million soums. In general, it should be noted that the excess plan revenues were spent on improving the socio-economic development of the region. This served to ensure the comprehensive socio-economic development of these territories.

Conclusion

As a result of this research article, the following conclusions were drawn:

First, at the new stage of independent development of Uzbekistan, special attention is paid to the financial independence of local budgets. In our opinion, in the future it would be expedient to reconsider the powers of local budgets on revenues and expenditures;

Secondly, during the current economic reforms, incentives and fines of local authorities, in particular the heads of financial and tax authorities, have led to additional sources of income in local budgets;

Thirdly, the country's economy is gradually moving to a market economy, therefore, in order to ensure the financial independence of local budgets, it is necessary to introduce market mechanisms;

Fourth, the decentralization of regions, in particular the revision of revenues and expenditures of government with inter-budgetary balances, contributes to an increase in the financial burden of local authorities;

The last, it is desirable to establish interstate budgetary relations in Uzbekistan, based on such aspects as accounting for powers on income and expenses, budgetary independence of regions, and ensure financial independence of regions.

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