

# **THE MAIN DIRECTIONS OF PUBLIC FINANCE MANAGEMENT REFORM IN THE REPUBLIC OF UZBEKISTAN**

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## **Abstract**

The article is devoted to the reform of public financial management in the Republic of Uzbekistan, the information base of which was composed of laws, regulations and information materials about the country's public finance system and its development in accordance with the directions and activities defined by two strategies for the reform of public financial management of the Republic of Uzbekistan. The article shows the relevance, purpose and objectives of the reform, describes the stages of development of the public finance system of Uzbekistan, the achieved results, problems and directions for its further improvement.

**Keywords:** public finance, public financial management reform, fiscal transparency, financial control, proactive budgeting, medium-term planning, strategic planning.

## **Introduction**

Uzbekistan, among the CIS countries, after declaring independence, set a course for restructuring the economy, in which it was necessary to reduce the share of state ownership, limit state intervention in the economy, and make a transition from a closed to an open society, which predetermined the need for a reform of the public finance system in the country, the modernization of which continues.

In the last two decades, there has been a growing interest of foreign and domestic scientists and specialists in reforms carried out in the field of public finance, confirmed by an increase in scientific research and publications devoted to current aspects of the budgetary and financial control activities of the state, expanding information on them, ensuring its openness and accessibility to the public. The goals of ensuring openness of public finances are primarily seen in improving the quality of public administration and control, the efficiency of budget expenditures, the completeness of the state's consideration of the needs and interests of society, which is given the opportunity to take part in the discussion of budget procedures and influence their direction, and increase the level of public trust in the government apparatus and the interest of taxpayers in paying taxes by convincing the population of the legality, reliability, fairness and efficiency of the mechanism for their subsequent distribution, ensuring general and individual benefit from this payment, the development of public control, allowing citizens to obtain information about the financial activities of authorities and the state as a whole, evaluate the information received from the point of view of compliance with their rights, freedoms and legitimate interests, make motivated decisions on the direction of citizens' appeals, as well as the use of judicial protection. Taking into account the content of the identified goals, openness of budget procedures is recognized as a decisive principle of public

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financial management - all this is relevant for Uzbek practice. When reorienting the budget process to achieve national goals, one should keep in mind the risks of repeating shortcomings in the implementation of this task, known from Russian experience. Here it is necessary to ensure the quality of goal setting, including the specificity and measurability of goals, and the systematic detailing of goals from general to individual for each area of competence and for all levels of government, management, execution, close operational interaction of organizations participating in the implementation of national goals, the direction of their activities for general results. It is important to take into account the peculiarities of the legal status of participant organizations and mechanisms for using budget funds, since not every goal can be achieved by the same organization and not every mechanism can be effective in achieving the goal. It is important to avoid retaining elements of ineffective previous forms of budget procedures and shifting the priorities of control activities towards secondary tasks. A review of publications on the topic allows us to conclude that it is advisable to understand the experience of foreign countries in the field of PFM reform in order to take them into account and possible application in Uzbek practice.

The declaration of independence by Uzbekistan in 1991 required radical reforms in almost all areas of activity, including the financial system, including one of its key links - public finance. Uzbekistan is a complex unitary state (the Republic of Uzbekistan includes the sovereign Republic of Karakalpakstan, until 1991 the Karakalpak Autonomous Soviet Socialist Republic) with a centralized system of public finance management and its main elements:

— the state budget, which includes income and expenses of the republican budget, the budget of the Republic of Karakalpakstan and local budgets. Local budgets are formed by regions, cities and districts. The budget of the Republic of Karakalpakstan, regional budgets and the budget of the city of Tashkent are consolidated budgets, including the budgets of administrative-territorial entities located on their territory and having the right to form their own budgets;

- state credit in all forms of its manifestation

- active: the state is the creditor, passive: the state is the borrower and conditional: the state is the guarantor; local authorities do not have the right to borrow funds, with the exception of receiving loans from the state budget to cover the cash gap arising in the process of budget execution on the following terms: if repaid within a year - interest-free, over a year - two percent;

— state insurance;

— state target (non-budgetary) funds;

— state and local unitary enterprises, the existence of which is due to the need to regulate certain areas of the economy and the provision of services.

The reform of public finances and their management in the Republic of Uzbekistan was due to the transition from a planned directive economy to a market economy, changes in the public administration system after the state declared independence.

As part of government programs for the transition to a market economy, work began on preparing a wide range of measures that were based on the principles of the priority of economics over politics, assigning the role of the main reformer to the state, ensuring the rule of law, pursuing a strong social policy, and gradualism in the implementation of reforms. All

this provided for the delimitation of spheres of influence in the management system, including public finance, limiting state intervention in the economy and its stabilization.

The first ten years in the development of independent Uzbekistan (1991–2001) were the most difficult for the country. During this period, the formation of a legal framework was carried out, structural restructuring of the economy and monetary reform were carried out, a tax system was formed, sectoral state companies were created, as well as conditions for the development of small and medium-sized businesses, the structure of state budget expenditures changed, and measures were taken to reduce the state budget deficit. These events required balanced economic, social, fiscal and monetary policies, financial and personnel support from the state. One of the most important tasks in the field of public finance of that period was to achieve transparency and controllability of the movement of budget funds at all stages of the budget process. Weak preliminary control and the virtual absence of current control in the banking system of budget execution led to constant arrears in taxes, fees and obligatory payments to the budgets of the country's budget system and, as a consequence, to untimely execution of budget expenditures, diversion of Central Bank funds to interest-free loans to cover budget deficit, inappropriate and ineffective use of budget funds.

In this regard, in 2002, in order to intensify the reforms begun in the field of public financial management, the government of the country initiated the development of a project for reforming public financial management<sup>5</sup>, and in 2007, the President of the Republic of Uzbekistan approved the strategy “Public financial management reform”, the ultimate goal of which was improving control over the public financial management system, the implementation of which continues in Uzbekistan to the present day.

The reform included the following practical steps: allocation of resources in accordance with the priorities and policies of the Government of Uzbekistan; efficient provision of services in terms of resource use; maintaining fiscal discipline; modernization of key processes in the public financial management system by creating a modern centralized treasury system, introducing a modern budget and accounting system, including a new budget classification and a new chart of accounts, introducing a medium-term budget strategy and program budgeting.

As part of the “Public Financial Management Reform” strategy in Uzbekistan, the following measures have been implemented from 2007 to the present:

1. A specialized financial body, the Treasury, was created within the Ministry of Finance, specialists were trained, a transition was made from the banking to the treasury system of budget execution, thus, problems related, among other things, to the lack of effective control over the movement of public funds and the growth of arrears to the budget were resolved. .
2. A single treasury account has been introduced, and a public finance management information system (PFM IS) has been created and is functioning. Thus, the conditions have been created for the introduction of operational control over the movement of public funds, the completeness and timeliness of the execution of revenues, and the targeted and timely implementation of budget expenditures in full. The accumulation of information and funds in a single treasury account made it possible to effectively manage public funds, in particular, to quickly regulate the budget deficit of the budget system, avoiding cash gaps in the execution

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of budget income and expenditures, to place temporarily free state funds into assets, ensuring the flow of additional revenues to the budget, and so on.

3. A new accounting and reporting system was introduced, replacing the existing fragmented system in which some parts were on a cash basis, some on the outdated accrual basis, and a new budget classification developed in accordance with the IMF Government Finance Statistics Manual. These measures were aimed at improving financial reporting; improving asset and liability management, measuring their effectiveness; ensuring the sustainability of fiscal policy measures; increasing the degree of financial transparency; strengthening the foundations of the cost accounting system in the subjects of the public administration system.

4. Work continues to increase the degree of financial transparency, introduce a medium-term budget strategy, program budgeting and increase the effectiveness of the use of budget funds. In order to strengthen control over the state and movement of public funds, the Accounts Chamber was created in Uzbekistan by Presidential Decree in 2002. This is an independent and independent body in its assessments that monitors and state supervision over the execution of the state budget of the Republic of Uzbekistan and extra-budgetary trust funds, the state and movement of assets and liabilities of the state, the management and disposal of gold and foreign exchange reserves and external borrowings, accountable in its activities to the President and the Oliy Majlis (parliament) of the Republic of Uzbekistan.

### ***CURRENT STATE OF THE PUBLIC FINANCE SYSTEM OF UZBEKISTAN***

Currently in the field of public finances of Uzbekistan:

- in order to increase financial transparency, a consolidated (consolidated) budget is formed, combining the state budget, budgets of state trust funds (the list is approved by a decision of the Cabinet of Ministers of the Republic of Uzbekistan), as well as funds from the Fund for Reconstruction and Development of the Republic of Uzbekistan, excluding transfers between them, which from 2020 . is enacted by the annual Law “On the State Budget of the Republic of Uzbekistan” (previously - by the annual presidential decree “On macroeconomic indicators and parameters of the state budget”);
- in order to more fully account and reflect the budget of the public administration sector and achieve compliance with international standards, a general fiscal balance is being formed from 2020, including the balance of the consolidated budget of the Republic of Uzbekistan and expenses for the implementation of government programs through external debt covered from the state budget;
- a maximum value of sovereign debt has been established (2019–2021 — 50% of GDP, 2022 — 60% of GDP). To achieve compliance with international standards, from 2020, expenses for repaying public debt (principal debt) are not included in state budget expenses. Repayment of the principal amount of debt is reflected in the sources of financing the budget deficit;
- there are two-tier budget and one-tier tax systems.

The country's budget system was unified, its structure was enlarged. The first level is represented by the republican budget of the Republic of Uzbekistan and the budgets of state trust funds, the second includes the budget of the Republic of Karakalpakstan, local budgets of regions and the capital of Uzbekistan, the city of Tashkent, which consolidate the budgets

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of districts and cities of the corresponding administrative-territorial subordination. Second-level budgets were enlarged, the budgets of auls, kishlaks and urban-type settlements were abolished, and financing the needs of these administrative-territorial entities was assigned to the budgets of the districts in which they are located. The budget system of the Republic of Uzbekistan, in addition to budgets, includes extra-budgetary funds of budgetary organizations. With the introduction in 2020 of the new edition of the Tax Code, the two-tier tax system, which included national and local taxes that formed the republican budget of the Republic of Uzbekistan, the budget of the Republic of Karakalpakstan and local budgets, was replaced by a single-tier tax system with unified taxes throughout the country. The policy of reducing the tax burden on the economy continues to be pursued, the distribution of income between the levels of budgets of the budget system is carried out centrally within the framework of the law "On the State Budget of the Republic of Uzbekistan", the regulation of the revenue side of local budgets is carried out in accordance with the procedure established by the Budget Code of the Republic of Uzbekistan. These measures are due to the need to ensure the sustainability and security of the budgets of the country's budget system, to solve problems that occurred during the functioning of the two-tier tax system related to the execution of the budget by income, the low efficiency of local taxes, control over taxes and regulation of local budget revenues, and during the pandemic they provided the opportunity to quickly regulate and support the budgets of the country's budget system. In 2020, to service and ensure the efficiency of public debt management, the Guarantee Fund was re-established under the Treasury without forming a legal entity. It should be noted that in accordance with the law of the Republic of Uzbekistan "On the Budget System", the Guarantee Fund functioned from 2000 until the introduction in 2014 of the Budget Code, which consolidated the main provisions of 50 legislative and by-laws, including the law "On the Budget System".

Regulatory support is being improved, laws and regulations have been developed and put into effect to ensure the effective promotion of reforms in the public finance system. They are based on: the Constitution of the Republic of Uzbekistan (new edition 2023); Law of the Republic of Uzbekistan "On local government power" (1993, as amended in 2022); The Law of the Republic of Uzbekistan "On the Budget System" (2000) and the Law of the Republic of Uzbekistan "On the Treasury Execution of the State Budget" (2004), which lost force with the introduction of the Budget Code (2014), which combined the main provisions of these two laws; Tax Code of the Republic of Uzbekistan (entered into force: 1998, 2008, new edition - 2020); Law of the Republic of Uzbekistan "On Public Procurement" (2018); Law of the Republic of Uzbekistan "On Public-Private Partnership" (2019); Law of the Republic of Uzbekistan "On the State Budget" (2019, 2020, 2021, 2022).

A draft law "On Public Debt" (2022) has been prepared and is currently being considered in the Parliament of the Republic of Uzbekistan. Thus, the legal basis for the functioning of state finances has been formed and continues to be improved.

The study allows us to conclude that during the development of independent Uzbekistan, changes in basic economic laws and the transition to market relations marked the beginning of fundamental changes in the PFM system; within 30 years, the country has formed an organizational and legal basis for its functioning, created institutions, and a legal framework, the foundation of which is the Constitution of the Republic of Uzbekistan (1992, new edition

2023), the Tax Code of the Republic of Uzbekistan (1997, 2007, 2019), the Budget Code of the Republic of Uzbekistan (2013), the Law of the Republic of Uzbekistan “On the State Budget of the Republic of Uzbekistan” (since 2019, annual), Law of the Republic of Uzbekistan “On the Accounts Chamber of the Republic of Uzbekistan” (Presidential Decree 2002, 2019), other laws and by-laws. The reform of the public finance system in Uzbekistan continues, directions and measures for its further development, improvement of the structure and qualitative changes are outlined in the second “Strategy for improving the public finance management system of the Republic of Uzbekistan for 2020–2024”, approved in 2020.

Within the framework of the main directions of its development, the implementation of the following measures is planned:

- development of a strategic approach to fiscal policy and the transition to efficiency and effectiveness, in particular in the direction of improving the budget process, developing a medium-term budget methodology, increasing budget performance and the efficiency of public investments. Currently, the system of “Accountability-oriented Budgeting” is being implemented using program budgeting at the initial stage, for which the Ministry of Finance, with the participation of international experts, is forming target indicators for the expenditures of the budgets of ministries and departments of the country and is beginning to implement a target planning system;
- increasing the institutional capacity and responsibility of participants in the budget process for ensuring the reliability of macro-fiscal forecasts based on further improvement of the legislative framework in the field of PFM, strengthening the functions of macro-fiscal analysis, restructuring the Ministry of Economy and Finance, improving the quality of services provided by the tax service, improving the public procurement system;
- expanding budgetary powers, increasing accountability and strengthening the responsibility of managers of budgetary funds and local government authorities;
- implementation of a system for assessing fiscal risks, maintaining records of financial assets and liabilities and their effective management;
- strengthening financial discipline based on the unification of budget accounting standards, improving the internal control and audit system, strengthening parliamentary and public control over the budget process;
- ensuring openness, completeness and compliance of budget information with international standards.

It seems that the administrative reform started in Uzbekistan in 2022, aimed at building an effective management system with clear regulation of the activities of executive authorities, as a result of which the Ministry of Finance, after restructuring, expanded and was transformed into the Ministry of Economy and Finance, which included including the Ministry of Economy, Tax, Customs Committees and the Cadastral Agency, should create the preconditions and promote the promotion of public financial management reform in Uzbekistan.

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