



THE ROLE OF STATE BUDGET IN ECONOMIC GROWTH IN UZBEKISTAN

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Abstract

The state budget simultaneously serves directly and indirectly in the implementation of the political, social and economic functions of the state in the public, as well as the distribution and redistribution of GDP. President of the Republic of Uzbekistan Shavkat Mirziyoev emphasized the importance of further strengthening macroeconomic stability and maintaining high rates of economic growth, including the balancing of the state budget at all levels, ensuring stability of the national currency and domestic market. This paper studies the impact of the state budget for the medium and long term on the country's economic growth. The article analyzes the impact of economic growth on the state budget and trends, the direct and indirect effects of economic growth.

Keywords: economic growth, gross domestic product, state budget, budget expenditures, budget revenues, medium-term budgeting

INTRODUCTION

The state budget simultaneously serves directly and indirectly in the implementation of the political, social and economic functions of the state in the public, as well as the distribution and redistribution of GDP. President of the Republic of Uzbekistan Shavkat Mirziyoev emphasized the importance of further strengthening macroeconomic stability and maintaining high rates of economic growth, including the balancing of the state budget at all levels, ensuring stability of the national currency and domestic market. It should be noted that, in accordance with the Action Plan, which reflects five key development trends, the large-scale reforms being



carried out require additional financial resources, and therefore, it is desirable to work continuously to expand and strengthen the budget revenue. The main reason for this is that the state is the main budget for intervention and regulation of the economy.

The impact of the state on the economy is evident, especially in the context of economic transition and development and crisis. It is well known from the history of economic cycles that the government's intervention in overcoming the crisis of all ages has increased, and this has given its positive result. Even in the conditions of the ongoing global financial and economic crisis, the negative effects of the crisis are being eradicated with the increase of government intervention in the economy. This can also be observed in developed and developing countries.

It is well known that the state budget assumes a considerable part of the public finances on the macroeconomic level. The funds will be used to finance the social sector (education, science, healthcare, culture and sports, social benefits, material aid, compensation payments, etc.) in national economies, national defense and security, centralized investment financing, and directly to the economic growth and development by implementing the costs of supporting non-profit institutions. It should be noted that a number of foreign scientists and economists have studied the impact of the state budget revenue and expenditures on economic growth in their researches.

LITERATURE REVIEW

A number of conceptual issues related to the impact of the state budget on the country's economic growth and the distribution of state budget funds have been studied by a number of economists. In particular, *Key V.O (1940)* wrote in his scientific article "Failure of Budget Theory": "What should be the basis for the decision to spend on X's activity due to the loss of \$ X in operation B?" In fact, after some time, "And became an issue that was largely based on the key issue with respect to effective budget allocation. Also, *Paul A. Samuelson's (1953)*"Public Expenses Theory" scientific publication substantiated the optimal level of public expenditure and analyzed the possibility of achieving this. Therefore, this scientific publication is recognized as one of the best theoretical research in the field of public finance.

Famous economist *Musgrave R.A (1973)* "Public Finance in Theory and Practice" and *X. Rosen's "Public Finance"* pays special attention to the search for objective solutions, taking into account the "Pareto Optimum" budget allocation. They analyzed the efficiency points for "pareto optimum" within the first and second fundamental theory of economic well-being.

The principle of equitable and effective distribution of resources is also important in the process of state budget planning. Any factor related to the planning of the state budget is primarily focused on targeted, effective and effective budget allocations. The main reason for

this is the fact that the state budget expenditures are characterized by continuous growth. According to the Vagner's Law, public expenditure is characterized by constant growth over the three factors listed below:

- The quantitative and qualitative renewal of social functions and functions in addition to the stages of economic and social development of the state;
- Striving for a constant state of economic growth and sustainability, as a key economic reformer;
- Regular, economically and financially balanced arrangements for various planned and unforeseen circumstances.

It is well known that the main issue of the fiscal policy has been the formation of a number of scientific views on the development of national economic growth and development based on the optimal level of budget revenues and expenditures at different stages of development. In the world, a series of researches have been conducted According to their general conclusions, there is a statistically significant negative relationship between public budget spending and economic growth over a long period of time (see Table 1). There are also some researchers who believe that such a negative attitude is not sufficient.

Table 1. Research results on the impact of state budget expenditures on economic growth

Researcher	Observations	Period	Variables (in terms of GDP)	Significance to the economic growth
Barro, 1991	98 countries	1960-1985	Government consumption (G) and government investment (I_g)	Government consumption (-) government investment insignificant
Easterly, Rebelo, 1993	More than 100 countries	1970-1988	Government investment in different fields	Investments in transport and communication (+), other field investments insignificant
Kneller et al., 1999	24 countries	1970-1993	Expenditures for production and non-manufacturing sectors	Expenditures for production sectors (+) expenditure for non-manufacturing sectors has low significance
Bose et al., 2007	30 developing countries	1970-1990	State expenditure in different fields	Education expenditure (+), the rest has low significance
Baldacci et al., 2008	118 countries	1971-2000	Education and health expenditure	Both has high significance
Dunne, Uye, 2009	103 different countries	In different periods of time	National Defense and Security Expenditures	20% cases (+) 37% cases (-) 43% cases no relationship

Source: World Bank data, 2013

In many scientific articles, it has been studied in detail that the impact of the state budget on economic growth may vary dramatically over the economic timeframe as a result of the various positive and negative effects of changes. In particular, the real increase in the state budget expenditures for education, health care, will increase the quality of human capital and economic growth rates for the medium term.

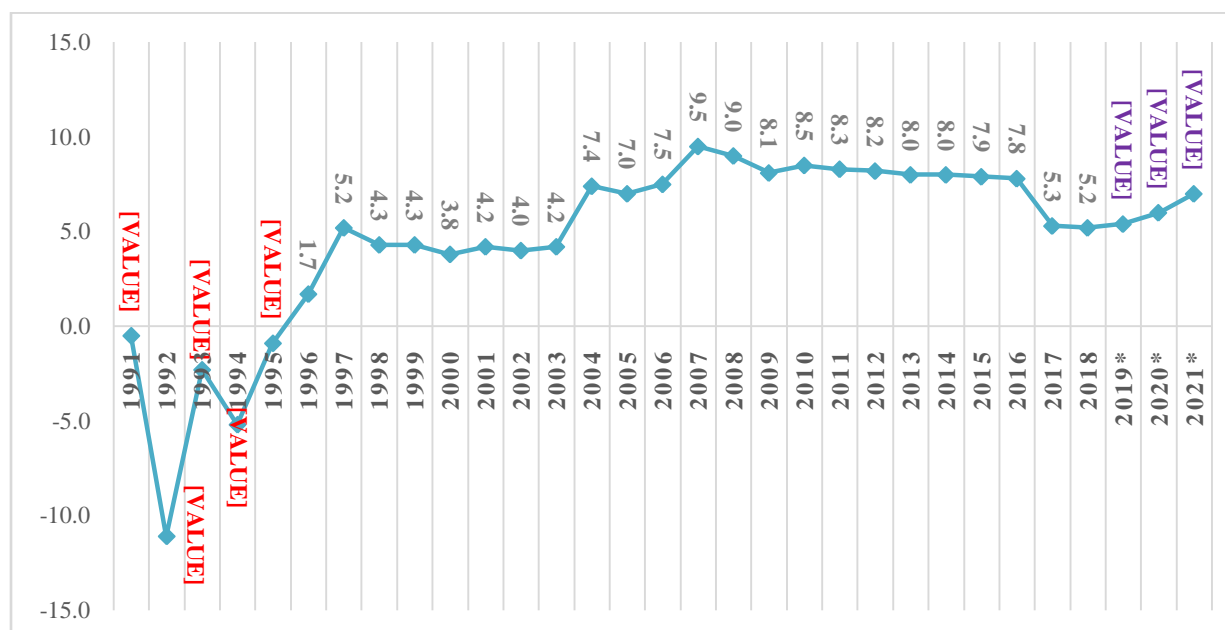
On the other hand, if additional state budget expenditures require the increase of tax rates, it will lead to a decrease in the income of the population and profitability of the commodity producers. As a result, the accumulation of funds decreases, and the investment activity of the enterprises decreases. As a result, the negative effect of economic growth on the positive effect from the growth of human capital quality results in a short period of time. If the growth of budget expenditures continues to grow in line with the budget deficit, it will increase the amount of money in the short-term, and will accelerate inflation, increase interest rates, and create other factors that hinder economic growth.

ANALYSIS AND RESULTS

At present, it is important to gradually implement economic reforms in the country, to create a mechanism for well-thought-out macroeconomic stability, to establish a qualitative system of economic growth, and to achieve positive macroeconomic indicators. Particularly, it is desirable to bring the state's fiscal mechanism to a qualitatively new level. In this regard, the President of the Republic of Uzbekistan Shavkat Mirziyoev emphasized: "... We need to revise the budget system of the country, ensure budget revenues and expenditures are open and transparent to our people." In our opinion, these tasks, defined by the President, are an important factor in the economic development of the state.

Since the early days of independence, Uzbekistan has been implementing the key socioeconomic issues associated with the gradual development of its model of development, which has been the key to the economic downturn in 1996, with macroeconomic stability and structural transformation in the economy. As a result of the reforms, a number of achievements in the national economy have been achieved. One of these results is the growth of GDP recorded over the years.

Figure 1. GDP growth rate compared to the same period previous year



Source: State Statistics Committee of Uzbekistan

The economy of Uzbekistan has grown by an average of 3.96% per year in 1996-2003, while in 2004-2008 it grew by an average of 8.8 per cent. The global financial and economic crisis, which began in 2008, has had a significant negative impact on the economy of Uzbekistan as well as many other countries. In particular, the GDP growth rate for 2008-2016 was 8.1 percent on average. GDP growth is projected at 6.0 per cent in 2020 and 7.0 per cent in the forecast for 2021, while the average GDP growth is expected to reach 5.3 per cent in 2017-2018, (Fig. 1).

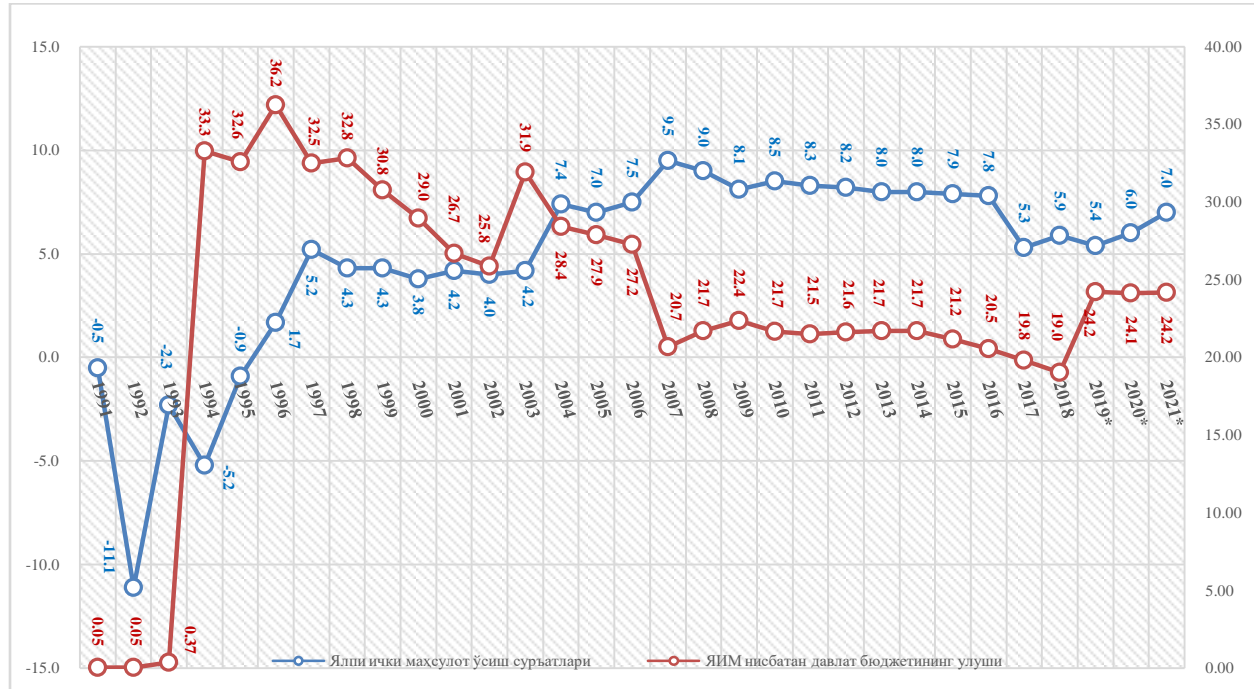
In addition, the tasks such as "maintaining macroeconomic balance and deepening structural and institutional changes based on the medium-term medium-term programs will ensure sustainable growth rates for the GDP".

In promoting socio-economic development at macroeconomic level, it is important to stimulate the aggregate demand. The reason is that the increase in this indicator, in turn, will lead to the growth of GDP and, in turn, to the development of its social features. One of the macroeconomic policies used by the government in regulating aggregate demand is the fiscal policy. On the basis of this policy the state interferes in economy in two directions: the first direction is the formation of the state budget, and the second one - budget expenditures.

If we analyze the relationship between GDP growth and the state budget for 1991-2016, then the state budget was initially 32-33 per cent of GDP, compared to 20-21 per cent in recent years. The figure for the year 2017 is 19.8 percent. In 2018, the figure rose to 19.0 percent.

According to the forecast estimates, it can be seen that in 2019 it will be 24.2%, in 2020 - 24.1%, and in 2021 - 24.2%.

Figure 2. GDP and state budget dynamics in Uzbekistan (in percent)

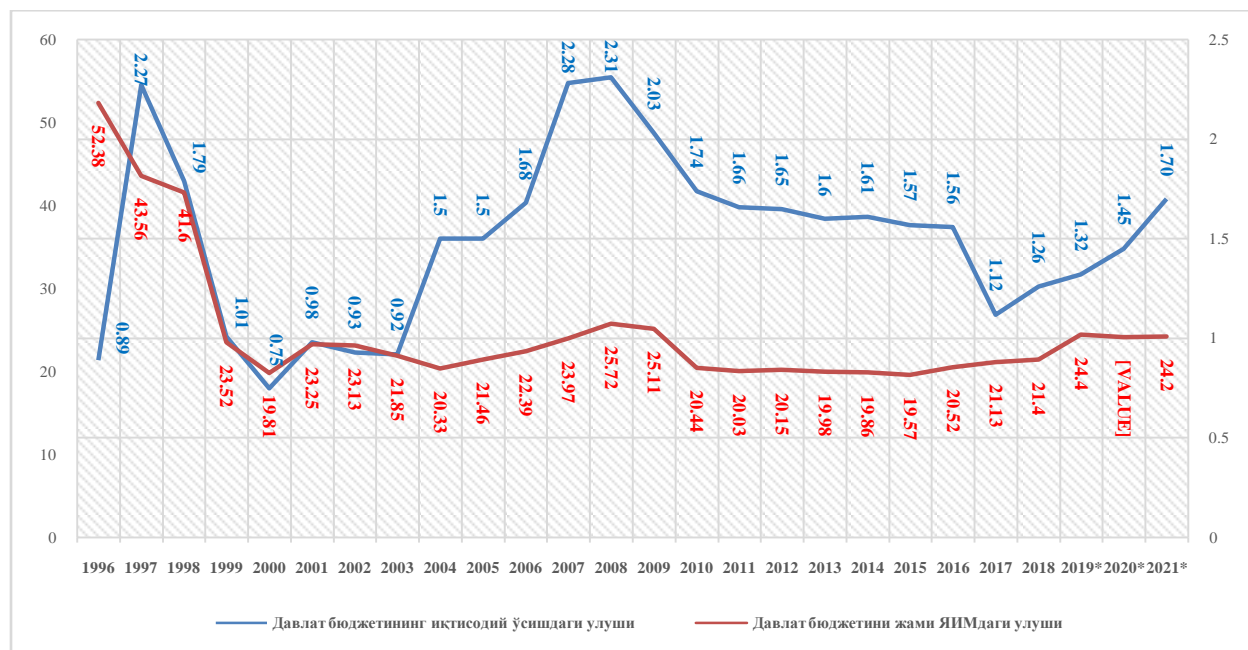


Source: The State Statistics Committee of the Republic of Uzbekistan and the Ministry of Finance of the Republic of Uzbekistan

Socio-economic and political decisions at the various levels of the state budget affect the total demand in society. At the same time, it is evident that the socio-economic development of the country also affects the public revenues and expenditures. One of the pressing problems for transitional economies is the need to justify the optimal ratio between state budget revenues and expenditures, their composition, budget and macroeconomic indicators, and per capita expenditure.

For example, if we analyze the data of the 3rd picture, the share of the state budget in the economic growth achieved in 1996 at the level of 0.89% (the total economic growth of this year was 1.7%), while the share of the total GDP 52.38 percent. The average share of the state budget for economic growth in the period 1996-2003 is estimated at 1.2 percent (average annual growth of 3.96 percent in 1996-2003 based on Figure 1) and 31.14 percent of GDP. During 2004-2009, the share of the state budget in economic growth was 1.9 percent and 23.16 percent of GDP.

Figure 3. The dynamics of the share of the state budget in economic growth in Uzbekistan over the years (in percent)



Source: State Statistics Committee of the Republic of Uzbekistan and Ministry of Finance of the Republic of Uzbekistan

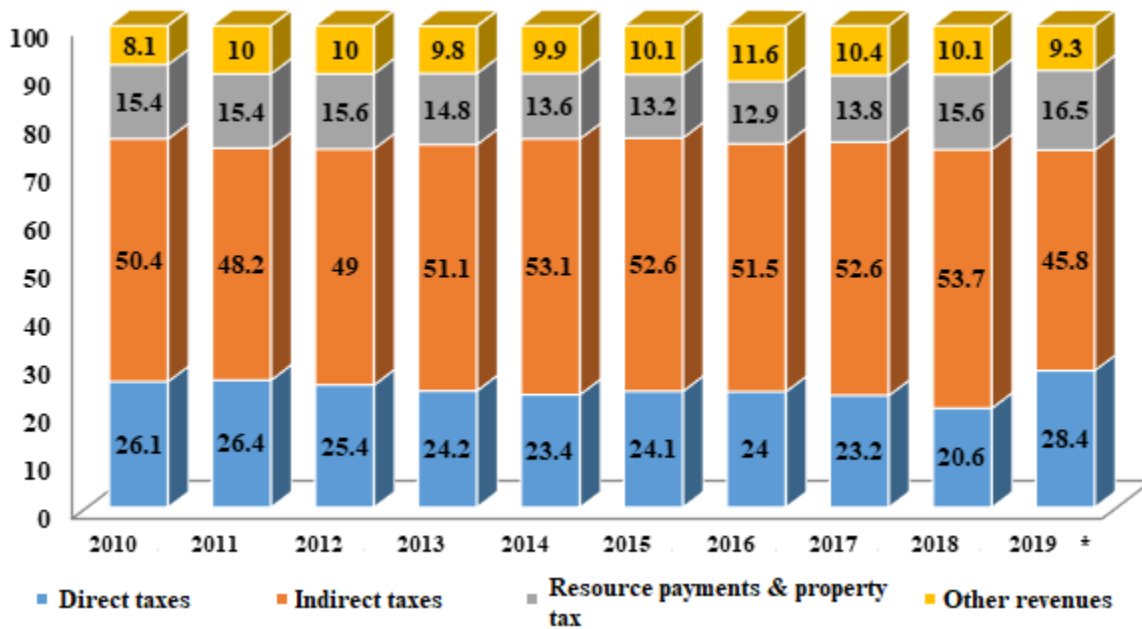
Also in 2010-2018 these figures were 1.5 percent, respectively. As a result of the analysis, it is possible to see that in the country the average budget deficit of 1.1%, ie the allocation and redistribution of the state budget for the growth of the overall share of the state budget is 21.3%. Also, if we talk about the share of the state budget for economic growth for the next period, then the share of the state budget in GDP in 2019-2021 will be 24.2%, while the share of the state budget in GDP will be 1.5%.

From the above analysis we have seen that the role and importance of the state budget in ensuring economic growth is important. Continuing the analysis, the direct income of the state budget, based on recent years' revenues data, was 25.3 per cent on direct tax revenues, 51% in indirect taxes, 13.4 per cent in resource allocations and property tax, and 10.3 per cent in other revenues (Figure 4).

As shown in Figure 4, currently the total amount of direct tax revenues in the state budget is substantial, mainly due to the fact that indirect taxes in the countries with economies in transition have their fiscal significance for a long period of time. Our country is also part of such countries and, therefore, the share of indirect taxes in the state budget revenues is higher. Secondly, the increase in the living standards of the population and the creation of adequate

conditions for entrepreneurship activities will lead to an increase in the real incomes of the population.

Figure 4. Analysis of the state budget revenues components
(in percent of total budget revenues)



Source: Ministry of Finance of the Republic of Uzbekistan

As a result of the development and introduction of measures to expand the tax base in the context of deepening and liberalizing economic reforms, strengthening of payment systems and improvement of tax administration lead to the growth of the state budget revenues. As a result of reforms in optimization of tax rates, reduction of tax burden on the economy and strengthening of tax incentive functions, the overall tax burden has decreased, budget revenues have increased and positive shifts have taken place. In the coming years it is planned to reduce the tax burden on the country's economy from 20.2% to 18.9% of gross domestic product in the current year.

It should be noted that if the state budget revenues have a tax burden on the economy, then the budget's expenses directly affect the aggregate demand in the economy, the development of various sectors and sectors of the social sphere, support the poor, and also facilitate indirect economic growth service. Particularly, nowadays most of the investment in human capital required by the economy is directly related to the state budget.

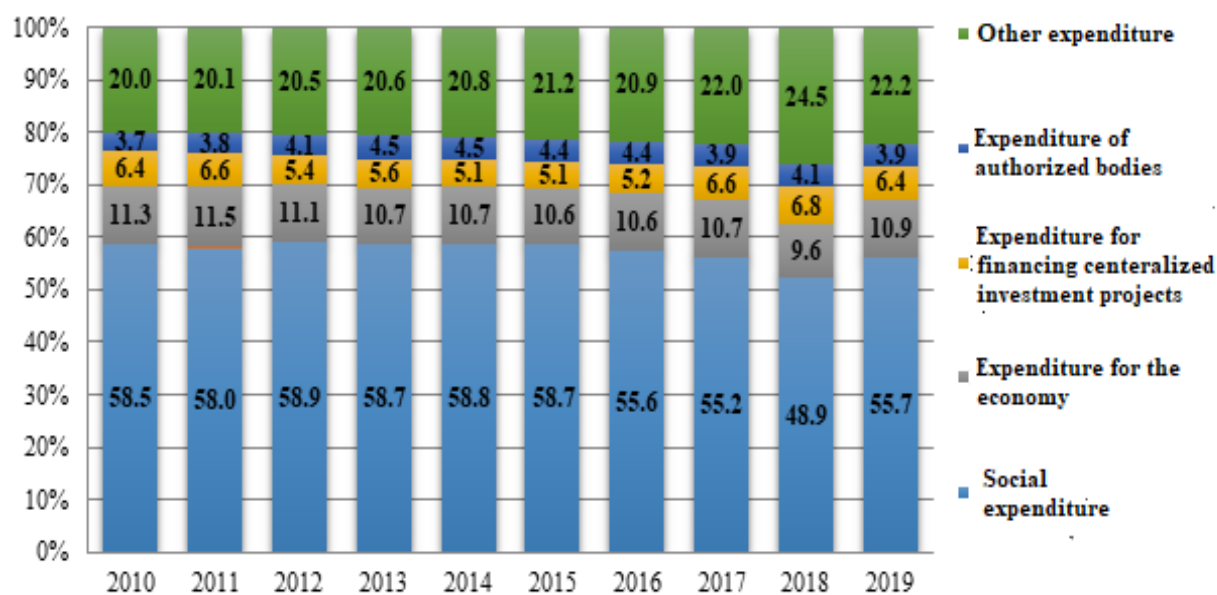
Also, the necessity of transition to determining the medium term budget deficit of the state budget is primarily due to the complexity of increasing the quality of budget services in annual horizontal budget revenues, and the need to fully address the impact of tax and fiscal policy decisions on important macroeconomic indicators. In addition, the following is the basis for determining the medium term budget revenues of the state budget:

- the necessity and the guarantee of continuation of financing of the state programs for more than one year;
- The need to provide reliable financial resources for the implementation of state programs;
- The need to improve budget transparency and transparency.

Expenditures of the state budget represent the financial content of the state's socio-economic policy. If we analyze the structure of expenditures of the state budget of the Republic of Uzbekistan for the recent years, we can observe the growth of expenditures. However, its share in the structure of GDP is relatively declining (see Figure 5).

Also, the gradual increase in expenditures for the social sphere and social protection of the state budget expenditures testifies to the fact that the state has created the financial basis of strong social policy. Expenditures for socio-cultural activities in the state budget expenditures have increased.

Figure 5. Analysis of expenditures of the state budget
(in percent of the total budget expenditure)



Source: Ministry of Finance of the Republic of Uzbekistan

In the course of the next year, the social spending in the total budget expenditure grew 58.5 percent in 2010, 55.6 percent in 2016 and 53.5 percent in 2018. According to the plan for 2019, social spending will be 54.2% of the total public budget expenditures. This is the highest among all countries in the world, which, in turn, shows the long and strategic significance of gradual social reforms in our country.

In the last 10 years, the economy's expenditures for the state budget can range from 10-11 per cent to centralized investment expenditures on average 6-7 per cent, public administration and savings - by 3-4 per cent, and other expenditure on average at 20-23 per cent.

It should be noted that the practice of calculating the multiplier effect of the state budget expenditures in developed countries is widely practiced. With the theoretical study of these practices we tried to calculate the multiplication coefficient of expenditure of the state budget in the national economy.

As a result of analyzes and calculations, we obtained the information given in Figure 5, according to it, in the structure of expenditures of the state budget funds directed for financing centralized investments are 1.31 per cent, expenditures for the economy - 1.03 per cent, expenditures on the social sphere - at 1.01 per cent, and the gross expenditure of the state budget to GDP per capita (Table 2).

Table 2. Multiplier Indicators of State Budget Expenditures to GDP

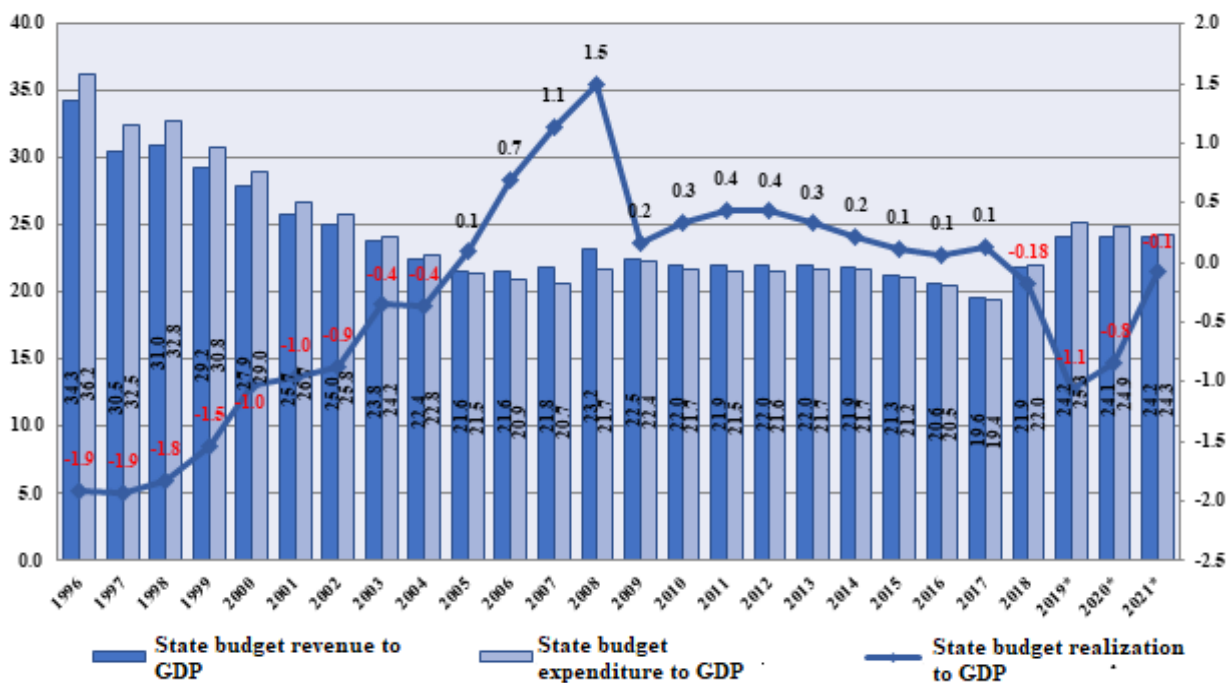
№	State Budget Expenditure	Coefficient
1	Social expenditure	1,01*
2	Economic expenditure	1,03*
3	Expenditures for the financing of centralized investments	1,31*
4	Expenditures on the maintenance of public authorities, governing bodies and judicial bodies and self-governing bodies	0,95*
5	Other expenditure	0,93*
Total budget expenditure		1,07

*Multiplier coefficients are within 10% statistical error index

Source: Author's calculations based on the data from the State Statistics Committee of the Republic of Uzbekistan and the Ministry of Finance of the Republic of Uzbekistan

Based on the findings and the results achieved, it can be very effective if it focuses on the central government's budget planning, development of research activities, enhancing the skills of the information infrastructure and enhancing the intellectual property protection, improving the social infrastructure.

Figure 6. An Analysis of the State Budget for Years



Source: Ministry of Finance of the Republic of Uzbekistan

In general, the increase in the targeted expenditures, which is being carried out by the state budget, leads to an increase in the aggregate demand. This leads to an increase in the demand for the manufacturing industry and the increase in the supply of goods, services and services. The continuation of this process will also lead to an increase in budget revenues. Because, due to the increase in production, tax rates will increase, resulting in an increase in revenues to the budget due to an increase in taxable items.

In the context of the execution of the state budget for the years to come, the state budget deficit in the first 1991-1994 was 4.2% against GDP, while the state budget deficit increased from 2.7% to 1.0% in 1995-2001 decreased. In 2002-2004 we can see that the state budget deficit is below 1% of GDP. Between 2005 and 2009, the execution of the state budget was executed with 0.1% to 1.5% of GDP. During 2009-2016, the state budget was implemented on a planned basis with a surplus of 0.1-0.2 percent of GDP.

CONCLUSIONS AND SUGGESTIONS

In general, as a result of the expansion of public spending on the part of the state budget, it is necessary to introduce advanced methods and mechanisms of stimulation of aggregate demand in the economy in order to ensure sustainable economic growth and improve its quality in Uzbekistan. For this purpose, the emphasis is placed on the use of state-of-the-art budget

planning tools and advanced methods to ensure that it is planned and implemented in the future with due regard for the targeted and efficient budget.

As a result of the above analysis, it can be said that the reforms in the state budget have not yet demonstrated a significant impact on the real economy. Because the state budget is the country's main financial plan, some of the laws are still in place to ensure its planning, implementation, and the continuity and availability of economic reforms. In particular, the current state budget does not have a sufficient legal framework for the full implementation of modern financial instruments and mechanisms, or does not meet the requirements, fiscal policy based on the development of fiscal mechanisms, the objective and the link with many state programs adopted for the medium term. the lack of reliable appraisal practices and the rational introduction of internationally well-known methods of budget planning. Is it to be a priority task. The current state budget planning is aimed at balanced implementation of the annual budget, due to the limited capacities of annual planning in terms of macroeconomic stability, implementation of state programs for socio-economic development, and predictability of fiscal policy, the budget allocators and recipients have their perspective plans in one fiscal year it does not have an extensive forecasting experience. In the planning of the current state budget, the existing fiscal discipline can only be achieved by reaching the outcome of a single fiscal year. An annual budget can be used to forecast the budget revenues and expenditure planning, but in the end, the deficit may occur in the state budget for the medium term. The current practice of assessment of the impact of medium-term macroeconomic forecasts and their impact on budget revenues necessitates improvement.

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