

Using Government Securities as a Source of Financing the State Budget Deficit – A Case Study of Uzbekistan

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Abstract

This study aims to find out the sources of financing the general budget deficit in the economy of Uzbekistan, and it is noted that the use of state securities, which is considered the most effective method of financing, has a number of positive aspects. In addition, the contribution of each financing source to covering the total budget deficit was studied by calculating the percentage. The study also included an analysis of the budget deficit within the local budget. Along with the historical method, descriptive analytical method was also used in the research. The results of the analysis showed that the Republic of Uzbekistan mainly relied on financing from external sources to cover the state budget deficit. The average contribution of external financing sources to cover the general budget deficit was more than 50 percent in the period under study, and the contribution of domestic financing sources was 20-30 percent in the same period, and this indicator reflected a small percentage compared to financing through external sources. Thus, the research recommends less use of external sources of financing the budget deficit and use of government securities as a source of non-inflationary financing to cover the deficit. The study also recommends rationalizing government spending and improving government revenues to curb the growing budget deficit.

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The state budget deficit means that state expenditures exceed state revenues. In the legislation of the Republic of Uzbekistan, the state deficit is defined as follows: the state budget deficit is the

excess of the state budget expenses of the Republic of Uzbekistan over its income in a certain period (1). In general, the state budget deficit can be determined by the following formula:

$$\text{State budget deficit} = \text{government expenditures} - \text{tax revenues}$$

In practice, the state budget always has a budget surplus or a budget deficit. Also, budget balancing can be observed at the time of budget planning. However, it is a very difficult process to implement this situation during budget implementation, because it is natural that the actual income and use of the income and expenses, which are part of the state budget, differ from the plan, as a result of which the budget balancing is not realized.

It can be theoretically divided the state budget deficit into two types. These are:

- Active deficit;
- Passive deficit.

The reason for the increase in government spending in the active deficit is mainly large investment projects. As a result, this deficit is not observed again after a certain period, that is, after the financed project has paid for itself, and on the contrary, the project becomes a source of income for the part of the state budget revenues. Short-term state budget deficit is also a component of asset deficit. In the case of short-term state budget deficit, the state mainly reduces the tax burden in order to reduce the

hidden economy, increase the size of taxpayers, ensure that all financial practices are legal and reflected in documents, and tries to determine the most optimal point tax burden rate (2).

Passive deficiency can mainly be manifested in the following cases:

- A decrease in tax revenues as a result of a decrease in economic growth rates;
- Due to various unforeseen natural events and mass-medical diseases, a sharp increase in government expenses, etc.

Passive deficit has a negative effect on the economy of all countries. In this regard, the state has to "cure" the deficit and the state budget has to choose one or more ways to finance the deficit.

Financing the state budget deficit is important for the country's financial system, as it has a direct impact on the distribution of resources between states, as well as between the state and the private sector. Also, the rational choice of financing sources of the budget deficit is determined based on the monetary policy of each country, and each country determines the normative norms of the state budget deficit based on its economic indicators. In addition, high public debt accumulated from high budget deficits threatens debt sustainability and slows down economic growth (3).

It is accepted to divide all sources of financing the budget deficit into two groups:

- 1) internal sources;
- 2) external sources

(4). Internal resources

consist of:

- Proceeds from placement of government securities;
- Balances of the funds of the republican budget of the Republic of Uzbekistan at the beginning of the financial year;

- The balance of funds of the off-budget Pension Fund under the Ministry of Economy and Finance of the Republic of Uzbekistan;
- balance of the funds of the State Employment Assistance Fund of the Republic of Uzbekistan ;
- State asset management, transformation and privatization funds;
- Funds to be attracted from other internal

sources. External sources consist of:

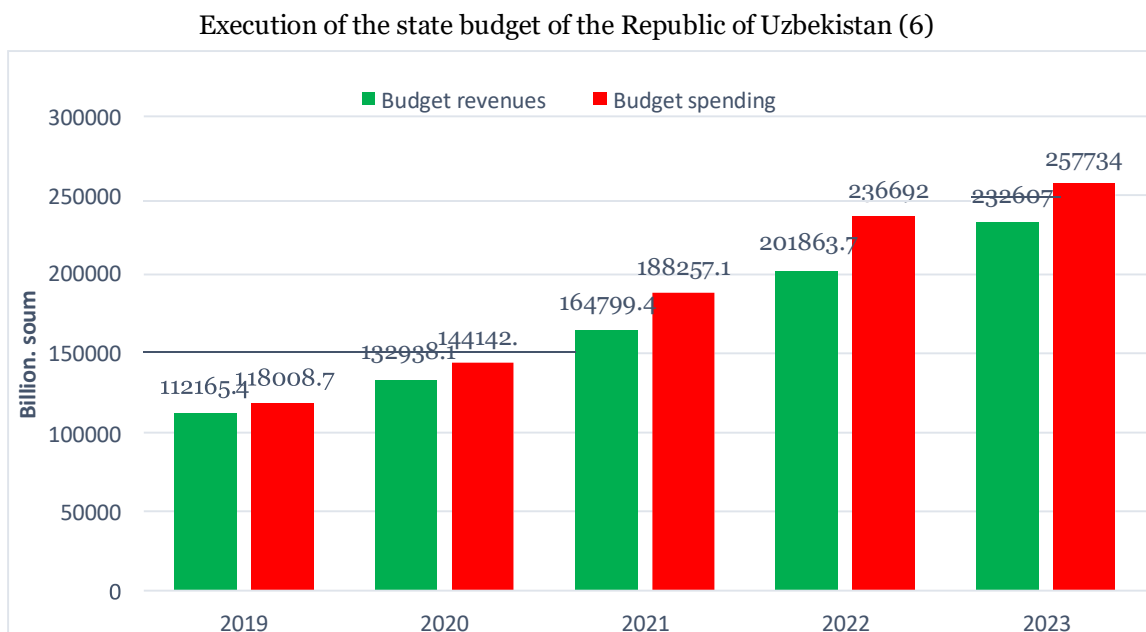
- Proceeds from placement of government securities;
- Loans of international financial institutions, organizations;
- Loans of foreign countries;
- Funds to be attracted from other external sources (5).

It can be seen that the legislation of the Republic of Uzbekistan envisages the use of state securities in attracting funds for the budget deficit from internal and external sources.

Relevance of the topic :

In order to more fully study the situation in the budget of the Republic of Uzbekistan and the level of deficit in it, it is necessary to study the statistical data recorded in the section of income, expenditure and deficit.

Figure №1



Budget revenues in the country in the period of 2019-2020 are 112165.4 billion. 132938.1 billion soums. increased to soums. The state expenses in this period also increased accordingly and by the end of 2020 it will reach 144142.8 billion. amounted to soums. In 2021 and 2022, the volume of budget revenues and expenditures increased by almost 1.25 times, and at the end of 2022, state budget revenues and expenditures reached 201863.7 billion, respectively. soums and 236692.0 bln. amounted to soums. However, by 2023, the growth of the total budget has slowed slightly and increased by less than 20%. It is noteworthy that as the budget revenues in the country increase, the budget expenses also increase and the difference between them is growing in the form of a deficit. To be more precise, the consolidated budget deficit during the studied years 2019-2023 amounted to the following amount:

Figure №2

Consolidated budget deficit (6)

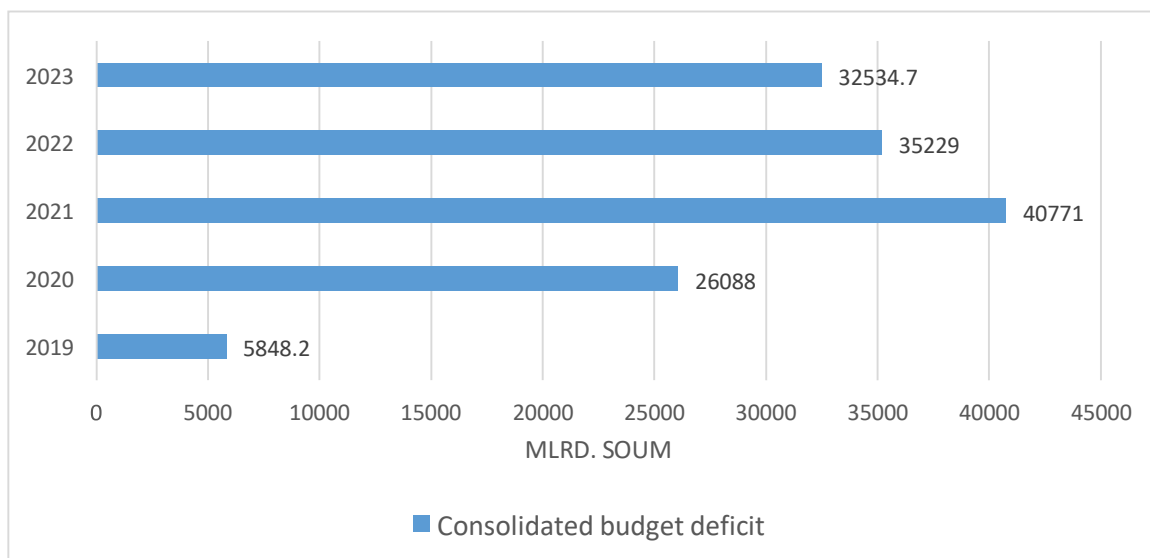
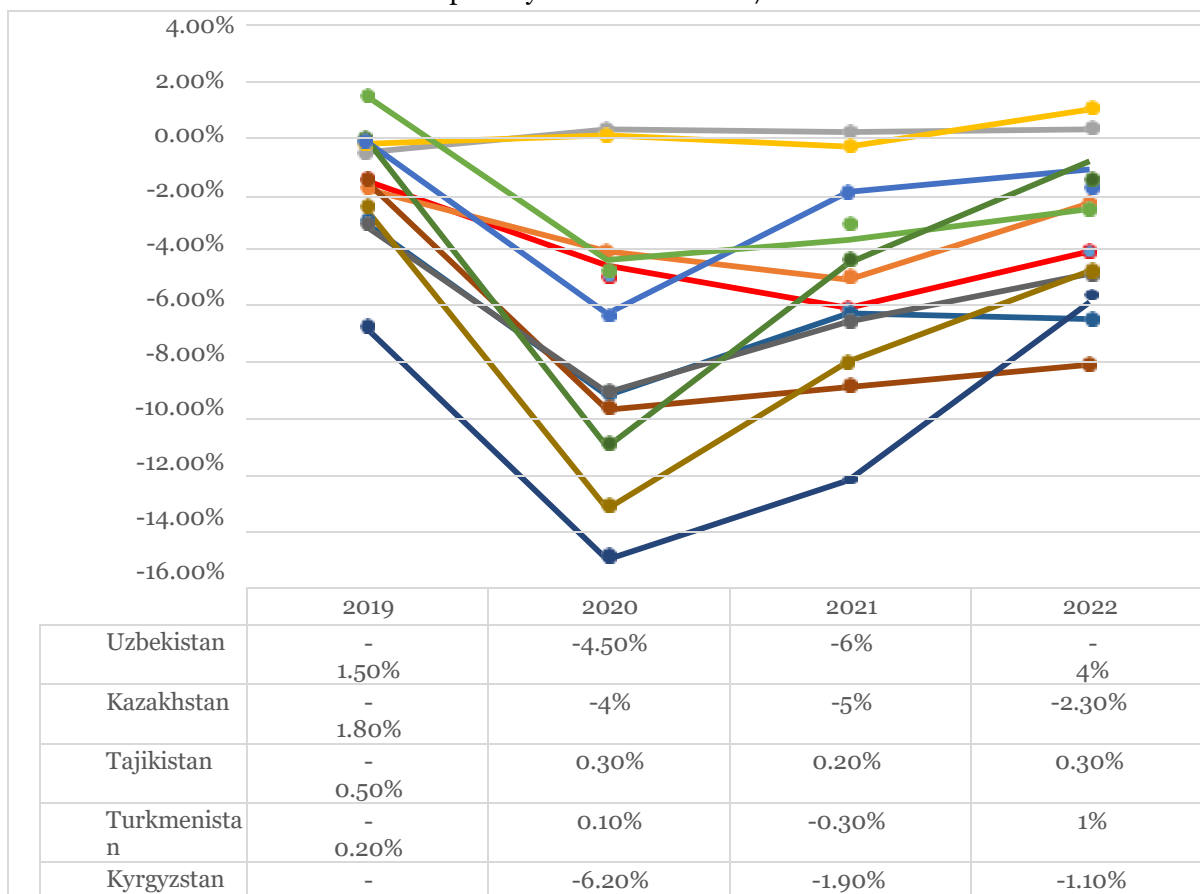


Figure 2 shows that in general the budget deficit in the country has a tendency to increase, but it

should also be noted that as a result of the rational fiscal strategies implemented in recent years, the budget deficit will be reduced within the established norms. provision has been made. As in international practice, the state budget deficit in Uzbekistan is measured mainly in relation to the country's GDP, and it is recommended that this figure not exceed 2-3% for developed and developing countries.

Figure №3

Indicators of the State budget deficit in relation to the GDP of Central Asian countries, especially Uzbekistan and G7 countries



	0.10%			
Germany	1.50%	-4.30%	-3.60%	-2.50%
Japan	-3%	-9.10%	-6.20%	-6.40%
Italy	-	-9.60%	-8.80%	-8.00%
France	1.50%	-9.00%	-6.50%	-4.80%
UK	3.10%	-13.10%	-7.90%	-4.70%
USA	2.50%	-	-12.10%	-5.80%
Canada	6.70%	14.90%	-4.40%	-0.80%
	0%	10.90%		

Source: Trading Economics (7), OECD Data Explorer (8) and <https://stat.uz> (9).

Based on the information presented in the above diagram, it can be said that there is a constant budget deficit in the developed countries of the world. Also, among the countries of Central Asia, there is a constant budget deficit and the countries with high percentages of GDP are Uzbekistan and Kazakhstan. Therefore, reducing the budget deficit in Uzbekistan, optimal financing of the current deficit, increasing the

sources of financing, and not using financing methods that have a negative effect on the economy and lead to a sharp increase in public debt show that it is a serious issue for the country.

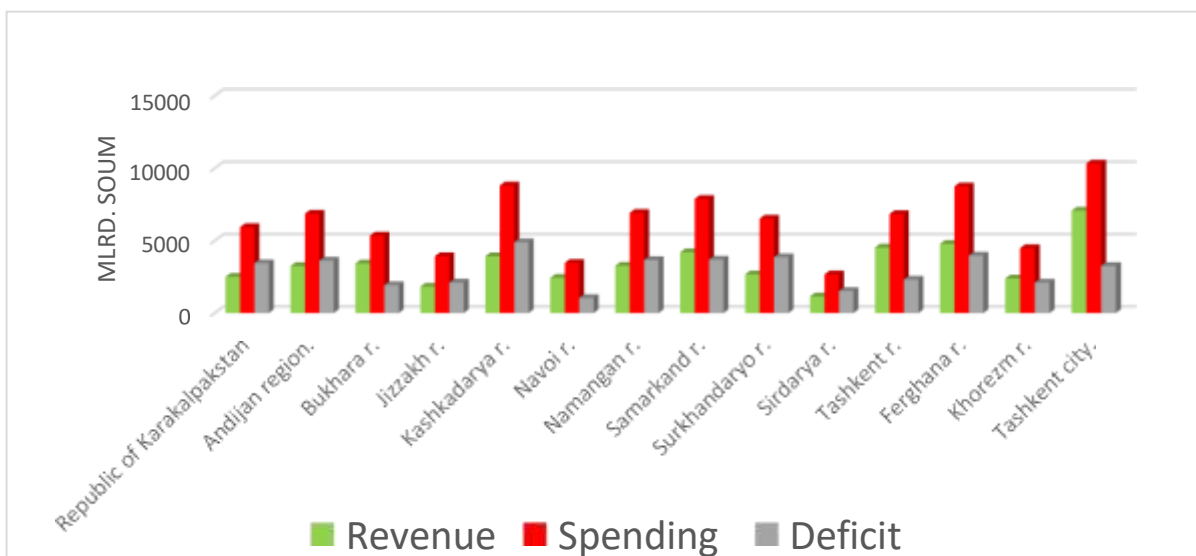
As a brief summary from Table 3, it should also be noted that during the worldwide pandemic (2020), as a result of increased budget expenditures and reduced revenues in the countries, the budget deficit during the studied period (2019-2022) was very high compared to the previous and following years. demonstrated. The COVID-19 pandemic has had a particularly strong negative impact on the economy of developed countries.

Main part :

For a more complete analysis of the existing consolidated budget deficit in the Republic of Uzbekistan, it is necessary to pay attention to which regions of the country the local budget could not cover its expenses and the various forms of budget transfers from the republican budget. It should be noted that according to the current legislation, local budgets are not allowed to have a deficit (1).

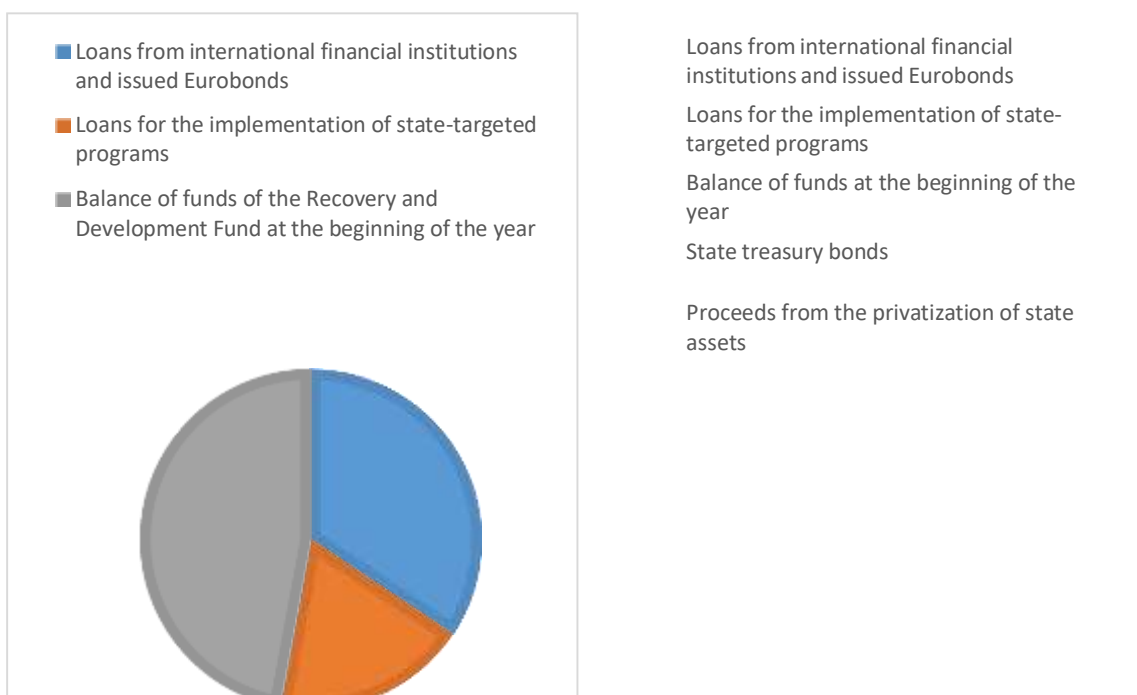
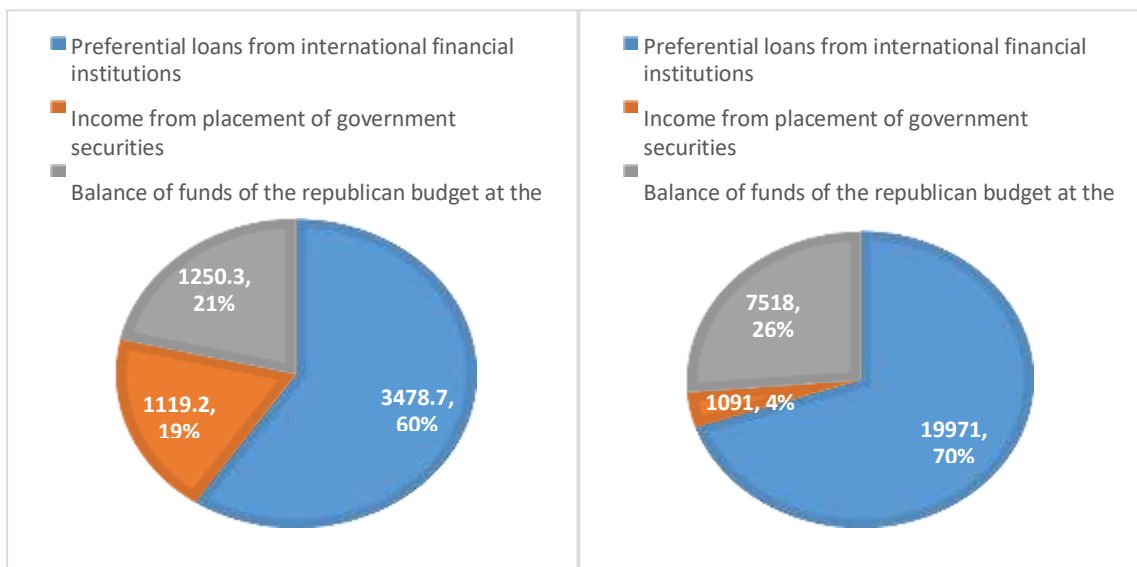
Figure №4

Indicators of 2022 budget implementation of local budgets of the Republic of Uzbekistan (6)



It can be seen that according to the data of 2022, none of the local budgets in the country fully covered their expenses and received budget transfers from the upper budget to the lower budget. To date, budget transfers are made one-way in the country, that is, from the upper budget to the lower budget, and more precisely, from the republican budget to the local budget. However, budget transfers are a two-way process, and it is also envisaged that surplus funds from the local budget will be transferred to the republican budget. However, due to the fact that the local budgets are not able to fully finance their expenses, they have to accept financial transfers only from the republican budget.

In order to cover the consolidated budget deficit, the country used the following financial resources: Figure №5 Sources of covering the consolidated budget deficit of the Republic of Uzbekistan (billion soums/ 2019-2022)(6)



The country financed the budget deficit mainly from external sources, that is, by attracting funds from international financial institutions. In addition, in recent years, the practice of issuing Eurobonds has been

used in the country, and this has had an effective effect on financing the budget deficit. But in general, external resources have a great place as a source of covering the budget deficit in the state. This process can

have a number of negative consequences:

- an increase in the state debt in foreign currency and the occurrence of an unexpected exchange rate risk (10) ;
- an increase in the money supply in circulation and, if it is not supplied with goods, an increase in the level of inflation in the country;
- strong financial attachment to funds of international financial institutions;
- not using internal resources.

The most optimal option for covering the state budget deficit is the issuance of domestic state treasury bonds. This process can have a positive effect on the monetary and credit system in the country as follows:

- achieving rational use of idle funds;
- increase in the rate of money circulation in the country;
- inflation level reduction ;
- on the basis of the rational use of capital redistribution function of securities, the direction of money flow from sectors with excess funds to sectors in need of money;
- due to the fact that government securities are a very low-risk (risk-free) financial asset, increasing interest in it among the population and increasing financial literacy of the population;
- increase in confidence in the state's monetary and credit system among investors who buy government securities and receive income at fixed interest rates.

Summary and Suggestions :

The field of state budget deficit financing Uzbekistan is of great importance for The Republic of Uzbekistan is a state budget financing itself Suggestions for identifying, presenting, and solving specific problems include:

1. In the country budget income and expenses increased going one at the time budget shortage the amount given recommended norms (to GDP from 2-3%) in comparison increased to come road not to put it is necessary Of this for state short , medium budget deficit financing and long term strategies set take need;
2. Local budgets performance according to reasonable and strictly measures apply through each one local budget shortage known amount to reduce reach it is necessary;
3. State budget shortage in financing with internal and external sources less with interest credit funds attraction to do according to events application need;
4. State budget deficit of financing main source state valuable papers country inside placing through attract funds to do to be must and to this reach for state his own finance in the market wide scope reforms done to increase it is necessary.

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