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IMPORTANT ASPECTS OF THE DEVELOPMENT OF THE STATE'S FINANCIAL POLICY

Eshtemirova Mukhlisa Utkirovna
Tashkent State University of Economics, Department «Finance and financial technologies», trainee-teacher

SH. Khamdamov
Prof, Scientific supervisor

A R T I C L E I N F O.

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Annotation

This article examines the key aspects of the development of the state's financial policy, which are necessary for sustainable economic growth and social well-being. The current state and main directions of reforming the tax system, budget process and public debt are analyzed. Particular attention is paid to the mechanisms of financial support for economic and social sectors, as well as the interaction of the state with the private sector in the context of financial innovation. In conclusion, the authors emphasize the importance of adapting financial policy to changing global conditions and express their views on future directions of its development.

The ongoing challenges of enhancing the rational management of state financial activities and refining financial policy tools are perennial concerns. This is because evaluating and enhancing their effectiveness has always been, remains, and will continue to be critical. Despite constant growth, the various methods for generating, allocating, and reallocating financial resources, along with their inherent limitations, tend to exacerbate the problem. Consequently, this inherent contradiction is viewed as the primary catalyst for advancing financial policy instruments.

Fundamentally, the state's financial policy comprises a series of decisions focused on managing public finances and steering economic activities. Its principal objective is to secure sustainable economic growth, ensure financial stability, and provide social protection for the populace. Key instruments in implementing financial policy include tax (fiscal) policy, spending policy, public debt management, monetary policy, and investment policy.

Main aspects of the state's financial policy are:

- Budget development and its approval.
- Tax regulation:
- Public debt management:
- Regulation of money circulation.

- Implementation of investment policy to stimulate economic growth, etc.

Stimulating the influx and actively attracting foreign direct investment in strategically important sectors can contribute to the expansion of production, technological renewal and the creation of new jobs.

The main issues of financial policy at the present stage are achieving a balance between state revenues and expenses, ensuring the stability of the national currency, controlling inflation and ensuring the well-being of citizens. It also aims to solve social problems, such as ensuring access to healthcare, education and social protection.[1]

The imperative to enhance the instruments of state financial policy stems from the need to secure sustainable economic development, maintain stable economic growth, and manage public finances effectively. Achieving these objectives necessitates the formulation and deployment of modern, adaptive tools designed to optimize revenue, manage public debt, and foster economic and social stability.

A critical component in enhancing the efficiency of the financial system is fiscal policy, which plays a pivotal role within the broader financial policy framework of the state. Improvements in tax (fiscal) policy are essential for the effective management of government revenues and expenditures, which in turn can stimulate economic growth, ensure financial stability, promote social equity, and support the balanced development of regions. Consequently, it is crucial to develop and implement contemporary fiscal regulation mechanisms, enhance tax efficiency, optimize government spending, and maintain transparency in fiscal operations to boost economic competitiveness and enhance citizens' quality of life.

In recent years, the tax policy of the Republic of Uzbekistan has gone through and continues to go through changes and stages of active reforms and modernization in order to stimulate financial and economic development and improve the investment climate in the country. Key aspects of the tax policy of the Republic of Uzbekistan are the tax structure, ongoing fiscal reforms, digitalization of tax administration, support for small and medium-sized businesses, and international tax cooperation. Uzbekistan has both direct and indirect taxes. Major direct taxes include:

- Value added tax
- Excise tax
- Income tax
- Personal income tax
- Social tax
- Property taxes
- Land tax
- Tax for the use of water resources

Pic.1. the list of direct taxes of the Republic of Uzbekistan[2]

[1] https://www.bibliofond.ru/view.aspx?id=904649
[2] https://nrm.uz/products?folder=179186_vidy_nalogov&products=1_vse_zakonodatelstvo_uzbekistana

Recent years have been characterized by major tax reforms, which are aimed at simplifying tax administration, reducing tax rates and expanding the tax base. The reforms are also aimed at reducing economic modernization.

An important step in the reform is the review and amendment of VAT rates and the expansion of the list of goods and services to which this tax does not apply, which helps to stimulate certain sectors of the economy. Tax reforms in Uzbekistan are aimed at creating a more attractive tax system for potential foreign investors by reducing the tax burden on enterprises. This includes reducing income tax rates for certain categories of entrepreneurs.

In the past few years, many significant changes have taken place in the field of financial policy and the financial system of the Republic.:

- one of the main steps towards improving financial policy is to improve financial transparency, that is, the formation of a consolidated budget that combines 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 without taking into account transfers between them, which since 2020 has been put into effect by the annual Law “On the State Budget of the Republic of Uzbekistan” (before that - 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 state programs through external debt covered from the state budget;
- a maximum value of sovereign debt has been established (2019-2021 - 50% of GDP, 2022-2024 - 60% of GDP).[3] 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.[4]

And also, in connection with the latest reforms in the field of public finance, according to the International Monetary Fund (IMF), Uzbekistan’s GDP in 2023 reached 1.07 quadrillion soums compared to the level of 2022 and reached 6%. The IMF forecasts GDP growth of around 5.5-6% until 2025.[5]

Public finances	**(as a percentage % of GDP)**				
	2021	**20221**	**2023**	**2024**	**2025**
Real GDP growth rate (percentage change)	7.4	5.7	6.0	5.4	5.5
Nominal GDP (trillion soums)	738	897	1,067	1,267	1,505
Consolidated budget revenues	27.7	32.0	30.1	30.5	30.6
Expenditures of the consolidated budget	33.2	36.0	35.6	34.5	33.6
Balance of the consolidated budget	-5.5	-4.0	-5.5	-4.0	-3.0
Loans for reforms	1.5	-0.1	1.0	0.7	0.6
Overall budget balance 2/	-6.0	-4.0	-5.5	-4.0	-3.0
State debt	35.3	33.9	36.3	35.7	34.7

[3] Budget for citizens. URL: https://openbudget.uz/ru/publicbudget; Law of the Republic of Uzbekistan, ON THE STATE BUDGET OF THE REPUBLIC OF UZBEKISTAN FOR 2022. from 30.12.2021 г. № LRU-742

[4] Sirojiddinova Z.Kh. Public finance system: management reform, areas of improvement in the Republic of Uzbekistan // Financial Journal. 2023. Т. 15. № 3. С. 122–142. https://doi.org/10.31107/2075-1990-2023-3-122-142.

[5] https://www.cer.uz/en/post/publication/uzbekistan-v-ekonomiceskoj-transformacii

«The Government of the Republic of Uzbekistan plans to reduce the budget deficit to 4 percent of GDP in 2024 and to 3 percent of GDP in 2025». [6] This broad fiscal consolidation is necessary to maintain the sustainability of public finances and contain inflation pressures in the near term, but it also needs to protect vulnerable populations and improve economic performance over the medium term. Consolidation is planned to be underpinned by pro-growth policies, such as reducing untargeted energy subsidies while maintaining assistance to vulnerable people, better targeting of social and safety net spending, and reducing directed lending. The authorities should be prepared to take additional measures to achieve budget deficit targets if risks associated with budget revenues and/or expenditures materialize. Existing opportunities to expand the tax base, further modernize the tax system, improve spending efficiency, strengthen core budget processes, unify the public investment process, and better manage fiscal risks will support the authorities' continued fiscal efforts. Continuous development of human resource capacity in areas such as tax policy, revenue administration and public financial management has enabled the authorities to implement an effective value added tax system and make significant progress in developing a budget strategy and budget risk report to improve the budget management system, as well as monitoring and managing fiscal risks. It is necessary to continue work in these areas. To avoid risks associated with PPPs, the mission recommends setting a guarantee ceiling for PPP projects in accordance with the public debt law, taking into account the results of the ongoing inventory.

Modern challenges in the world and the changing economic environment suggest the need to improve the instruments of the state's financial policy. To achieve the above goals, it is necessary to actively participate in the development and implementation of policies that promote private sector development, improve infrastructure, increase productivity, support innovation and create an enabling business environment.

Attention should also be paid to the development of financial literacy, monetary regulation and investment policy in order to maintain macroeconomic stability and the sustainability of the financial system.

In conclusion, it is important to note that improving the government's financial policy requires a balanced approach to managing finances, stimulating economic growth and ensuring financial stability in the long term.

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