

## FACTORS ENSURING FINANCIAL STABILITY OF LOCAL BUDGETS IN UZBEKISTAN

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### Abstract:

This article investigates the factors that influence the financial stability of local budgets. The study uses theoretical and methodological approaches to analyze the composition and dynamics of state budget expenditures, as well as the relationship between state and local budget expenditures. The article provides practical recommendations for optimizing the expenditure structure to ensure financial stability of local budgets.

**Keywords:** state budget, local budgets, financial stability, budget expenditures, expenditure management, budget sustainability.

The responsibility of local government agencies in enhancing their socio-economic activities in the areas of improvement, utilizing the existing financial powers in the regions, and developing a sustainable revenue base are demanded. The distribution system of budget expenditures through the budget system ensures the financial stability of local budgets and enhances the efficiency of state expenditures that can be used for public financing. Improving the efficiency of state expenditures to increase the tax revenues they generate from the resources that are being invested by them is important.

The budget system is responsible for allocating the necessary funds for the implementation of the tasks assigned to society that arise from the functions of the state. The state budget forms the financial resource base of various levels of government agencies, and according to the tasks assigned to promote social, economic, and political development of society, the distribution of expenditures is demanded through various levels of the budget system.

The management system of local budgets incorporates the effects of income, expenses, and budget transfers, which consist of three components. The issue of increasing financial sustainability through revenue growth in local budgets has been widely discussed in the national financial system. The principles of budgetary stability based on the theoretical foundations of the expenditure component have been well researched by the economist A. Wagner<sup>1</sup>. In particular, A. Wagner empirically proves that government expenditures are increasing at a higher rate compared to national income growth rates. Economists Richard Masgrave and Alan Peacock have demonstrated in their research the need to increase government expenditures and expand the public sector to enhance long-term well-being of the

<sup>1</sup> Балацкий Е.В. [Закон Вагнера, кривая Арми-Рана и парадокс богатства](#) // Общество и экономика.2010. -№ 9. - С. 80-97.

population in terms of prosperity<sup>2</sup>. One of the key figures in state finance, R. Musgrave<sup>3</sup>, analyzed the importance of budget expenditures in terms of social significance, and researched the ways to improve the economic development of the country through the additional income base created by the development of the budget during the progressive phase of economic development, thus ensuring the financial sustainability of the budget by allocating funds based on timing and needs.

Economists A.U. Burkhanov and Kh.A. Kurbonov<sup>4</sup> studied the dialectical relationship between local budget income and expenditure efficiency, with a focus on the development of a "Development Budget" within the local budget expenditure policy. Economist A.Kh. Islamkulov emphasized the need for central and local government authorities to clearly define their financial responsibilities and authorities in the areas of public finance, budget and tax, to ensure the financial stability of government revenues<sup>5</sup>.

In addition to state debts, the budget system must include resilience measures, such as short-term financial support for various economic, social, and environmental emergencies<sup>6</sup>. The distribution of expenditures and the allocation of funds should be based on the decision-making authority of central and local government agencies, depending on their needs and preferences.

In general, if we analyze the composition and dynamics of government budget expenditures, the main share of the state budget expenditures of the Republic of Uzbekistan related to social sphere and public support has decreased from 56.35% in 2018 to 49.12% in 2022<sup>7</sup>.

Although the Center for Legal Support of the State Policy for the Social Sphere and Public Support is responsible for ensuring the uniform standards of the state policy in this area and establishing a regulatory framework for it at the national level and has the right to appeal to the government, the responsibility for funding and implementing these policies lies with the local government bodies, which finance these expenditures through local budgets. The distribution of these expenses to local budgets has a direct impact on their financial stability. While the dynamic growth of expenditures related to financing investment projects in recent years has led to an increase in their share within the government budget expenditures, efforts to strengthen the financial stability of local budgets through increased revenues from the social sphere and public support expenditures can lead to further improvements in this area.

<sup>2</sup> [Musgrave R., Peacock A. Introduction](#) // Classics in the Theory of Public Finance.- London: Macmillan, 1958.- P. 244.

<sup>3</sup> Richard A. Musgrave. The Theory of Public Finance. -McGraw-Hill, 1959. – pp.628.

<sup>4</sup> Бурханов А.У., Курбанов Х.А. Худудларда маҳаллий бюджетлар даромадлар манбаини кенгайтириш йўллари (Қашқадарё вилояти мисолида) // “Иқтисодийёт ва инновацион технологиялар” илмий электрон журнали. № 1, январь-февраль, 2018 йил

<sup>5</sup> Исламкулов А.К. Маҳаллий бюджетлар даромадлари барқарорлигини таъминлаш масалалари // “Иқтисодийёт ва инновацион технологиялар” илмий электрон журнали. № 4, июль-август, 2016 йил.  
[http://iqtisodiyot.uz/sites/default/files/maqolalar/43\\_A\\_Islamqulov.pdf](http://iqtisodiyot.uz/sites/default/files/maqolalar/43_A_Islamqulov.pdf)

<sup>6</sup>Fassi D., Sadini C. Design Solutions for Resilience // H. Pinto, T. Noronha, E. Vaz. (eds.) Resilience and Regional Dynamics. An International Approach to a New Research Agenda. Springer International Publishing, 2018. P. 131–150.

<sup>7</sup> [www.mf.uz-расмий](http://www.mf.uz-расмий) сайти маълумотлари.

Beyond that, the inclusion of the joint expenditures of central and local government bodies in the composition of other expenditures ensures the effective use of targeted expenditures and strengthens the financial basis for local budgets, allowing for a strong financial foundation for the stability of local budgets. While social transfers play an important role in ensuring financial stability for local budgets, increasing the income base is considered the main priority.

If 59% of state budget expenditures in 2018 were allocated directly to the Republic budget, this figure had risen to 73.4% by 2022<sup>8</sup>. However, it should be emphasized that local government bodies have taken social transfers and the formulation of transparent joint expenditures under their own protection, although social transfers, which are responsible for standardizing the volume of social services, are taken into account as budget expenditures for the Republic budget, while their corresponding expenditures for local budgets are considered as financial assistance allocated from the higher budget. Therefore, it is possible to say that this financial aid from the higher budget, which is allocated to ensure the financial provision of corresponding expenditures, performs the income function in its own way for local budgets. If we consider the allocation of social transfers to specific and targeted expenditures, local government bodies are responsible for financing corresponding expenditures, and social transfers serve the "transit" function in terms of directing social transfers to specific and targeted expenditures in their respective regions.

In natural way, the main part of budget expenditures is directed towards financing services labeled "public market" and the funds allocated to these services are not always monitored and properly accounted for. However, they can directly impact the growth of the sector of local products (LPM) in the regions of the country. Therefore, the degree to which these funds have been utilized in the regions determines the level of effectiveness of the state policy aimed at promoting the social and economic development of these areas.

**Table 1. Information on the budget expenditures of Uzbekistan's local budgets, expressed as a percentage of the total<sup>9</sup>**

H territories / years	2018	2019	2020	2021	2022
Karakalpakstan Republic	6.8	7.5	7.5	7.2	6.8
Andijan province	8.5	8.6	7.9	8.0	8.3
Bukhara province	5.7	6.0	6.6	5.9	5.9
Jizzakh province	4.5	4.9	4.4	4.2	4.5
Kashkadarya province	8.7	8.5	9.8	10.3	9.7
Navoi province	3.9	4.4	3.9	3.8	3.8
Namangan region	7.7	7.5	8.0	8.1	8.1
Samarkand province	10.3	9.9	8.1	9.3	8.7
Surkhandarya province	7.4	7.1	6.9	7.6	7.8

<sup>8</sup> [www.mf.uz-расмий](http://www.mf.uz-расмий) сайти маълумотлари.

<sup>9</sup> [www.mf.uz-расмий](http://www.mf.uz-расмий) сайти маълумотлари асосида муаллиф томонидан шакллантирилган.

Syr Darya province	3.2	3.3	5.0	3.2	3.1
Tashkent province	8.1	8.1	7.2	7.5	7.7
Ferghana province	10.3	9.5	8.8	9.5	9.8
Khorezm province	5.5	5.2	4.8	5.2	5.4
Tashkent city	9.3	9.5	11.3	10.1	10.6
Total	100	100	100	100	100

Based on the table of information, it is evident that as a result of the dynamic trend of local budget expenditures, changes are expected in the total local budget expenditures in the regions in 2022. Specifically, while in 2018 the indicator of 9% (average according to the distribution) of total local budget expenditures was higher in Samarkand (10.3%), Fergana (10.3%), and Tashkent city (9.3%), by 2022, this indicator is expected to be observed in Kashkadarya (9.7%), Fergana (9.8%), and Tashkent city (10.6%). The main factor influencing these distribution indicators is the regional allocation of expenditures by local budgets, which is based on the needs of the population for regional economic and social measures and government social services funded by local budgets.

In conclusion, it can be said that the trend of unequal distribution in the economic potential of regions and social strata affects the distribution of local budget expenditures. Secondly, the high-budget social transfers to the community are another factor that has a significant impact on ensuring the financial stability of local budgets. To determine the degree of inequality in the distribution of local budget expenditures among the population, the local budget expenditure index can be used.

We will proceed to determine the local budget expenditures index ( $I_{mbx}$ ) which identifies the expenses of the constantly resident population in the territory. The index can be calculated as follows within the boundaries of the regions.

$$I_{mbx} = \frac{\frac{LBE_r}{\sum P_r}}{\frac{LBE_g}{\sum P_g}}$$

Here,  $LBE_r/\sum P_r$  represents the ratio of local budget expenditures to the total population, and  $LBE_g/\sum P_g$  represents the ratio of total local budget expenditures to the population.

**Table 2. The index of local budget expenditures per capita in the regions of Uzbekistan<sup>10</sup>**

Regions/years	2018	2019	2020	2021	2022
Karakalpakstan Republic	1.2	1.3	1.3	1.3	1.2
Andijan province	0.9	0.9	0.9	0.9	0.9
Bukhara province	1.0	1.0	1.2	1.0	1.0
Jizzakh province	1.1	1.2	1.1	1.0	1.1
Kashkadarya province	0.9	0.9	1.0	1.1	1.0
Navoi province	1.3	1.5	1.3	1.3	1.3
Namangan region	0.9	0.9	1.0	1.0	1.0
Samarkand province	0.9	0.9	0.7	0.8	0.8
Surkhandarya province	1.0	0.9	0.9	1.0	1.0
Syr Darya province	1.3	1.3	2.0	1.3	1.2
Tashkent province	0.9	0.9	0.8	0.9	0.9
Ferghana province	0.9	0.9	0.8	0.9	0.9
Khorezm province	1.0	0.9	0.9	0.9	1.0
Tashkent city	1.2	1.3	1.5	1.3	1.3
Total	1.0	1.0	1.0	1.0	1.0

It is possible to see from Table 2 that the local budget expenditure index per capita in the regions was 1.3 in Navoiy region in 2018 and this indicator will be observed in Navoiy region and Tashkent city in 2022. During the analyzed period, the highest index for this indicator was observed in Syrdarya region in 2020 (2.0) among the regions. The average index for local budget expenditures per capita is approximately twice as high. This indicator was 1.5 in Navoiy region in 2019 and in Tashkent city in 2020, respectively.

Therefore, it can be concluded that there is a gap and chaotic distribution in the allocation of local budget expenditures relative to the population, and through the establishment of a strong income base, it is possible to ensure their financial stability.

Secondly, the high level of per capita local budget expenditures in regions where the overall regional output is high (Navoiy region, Tashkent city) indicates the potential for increasing the economic capacity of regions through state policy aimed at solving social problems. Thus, increasing the economic capacity of regions is a key factor in ensuring financial stability of local budgets.

From the above, it is possible to conclude that there is a difference and discrimination in the allocation of financial budgets for the population, which undermines their financial stability. To ensure their financial stability, it is necessary to establish a solid income base through the

<sup>10</sup> [www.mf.uz-расмий](http://www.mf.uz-расмий) сайти маълумотлари асосида муаллиф томонидан шакллантирилган.

allocation of capital budget elements in the social and civic sectors of expenditure classification in the local budgets.

Specifically, in accordance with the goal of enhancing financial stability in local budgets, the following expenditures have been consolidated, especially for the current budget cycle:

1. Expenditures related to the repair and reconstruction of educational institutions, healthcare facilities, and irrigation projects, as well as the improvement of irrigated land conditions, which are related to repair and maintenance activities.
2. Legal assistance expenses provided by lawyers.
3. Capital repair expenditures for residential buildings and entry into the system of the Ministry of Housing and Communal Services, as well as expenditures related to the provision of heating systems and boiler houses by organizations in charge of providing heating services.

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