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THE IMPACT OF BUDGETARY POLICY ON MACROECONOMIC STABILITY IN THE CASE OF UZBEKISTAN

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Abstract: The article examines how budget policy affects macroeconomic stability in Uzbekistan during the period from 2017 to 2024 which experienced major economic reforms. It proves through its research on budgetary policy indicators in its research that the host country reaped positive benefits from the combination of budgetary and total revenue collection policies as well as financial resource management practices that had successful impacts in curbing inflation variability, stability of the exchange rate as well as the long-term expansion of the GDP of the entire host economy. The country, therefore, cut its budget deficit by half in 2017 to 2023 as it fell by 1.9% and cut its inflation from double digit rates to 9.3%. The core of these studies relates to the budgetary system and macroeconomic stable as well as fiscal consolidate and economic reforms of Uzbekistan.

Keywords: budgetary policy, macroeconomic stability, fiscal consolidation, Uzbekistan, economic reforms.

Kirish

Accordingly, the paper will investigate following research question: to what extent has the budgetary policy affect macro stability in Uzbekistan in the period of reforms 2017-2024? This issue is particularly topical given the fact that after the change of power in Uzbekistan in 2016 it started its transformation from a planned economy into market oriented one.

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Macro stability is seen as the basic requirement for sustained economic growth and poverty reduction. Macroeconomic stability can be defined as the combination of: Low and stable inflation, robust and sustainable growth; stable exchange rates and balanced fiscal and external position. Nevertheless transition countries like Uzbekistan have grave policy challenges for achieving simultaneously macro economic stability and deep structural transformations.In reality, the authorities have to strike a desirable balance between fiscal discipline and rising demand for public investment in infrastructure, education and health.

The paper addresses this limitation through empirical estimation of major fiscal policy tools (resource mobilization, expenditure composition and deficit management) and macroeconomic stability indicators for Uzbekistan for post-reform period 2017-2024. The work provides contribution for policy effectiveness studies in transition economies given the specific emphasis for reform context of Uzbekistan.

Adabiyotlar tahlili

The relevant recent literature emphasized the importance of the fiscal policy for macro stabilization, particularly for emerging and transition countries. As Blanchard puts it, “fiscal policy has regained prominence in macroeconomic stabilization, especially in low interest rate environments where monetary policy effectiveness may be constrained”. Fats and Mihov confirmed this finding and their study provided the empirical evidence, stating that “discretionary fiscal policy volatility is negatively associated with economic growth and positively correlated with output volatility”.

As for Central Asian economies, research conducted by the Asian Development Bank demonstrates that fiscal consolidations pursued by the Central Asian economies have been effective in reducing macroeconomic risks; nevertheless, some challenges persist. According to the International Monetary Fund, analysis done for the case of Uzbekistan indicated satisfactory progress in fiscal reforms, especially in tax administration,

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reduction in fiscal activities and public financial management. Indeed, after 2017 there was a substantial progress in fiscal transparency, public financial management and tax administration reforms in Uzbekistan.

Tadqiqot metodologiyasi

The empirical analysis is based on annual data from 2015-2024 to incorporate pre and post reform periods of 2015-2016 and 2017-2024 in Uzbekistan respectively. Data include a set of relevant fiscal data (revenue, expenditure, budget balance and debt) and a set of relevant macro economic variables.

Data has been collected officially from various sources namely: The Ministry of Finance of Uzbekistan, the Central Bank of Uzbekistan, The State Committee of Uzbekistan on statistics and international organizations like International Monetary Fund, World Bank, Asian development bank.

To measure the macro economic stability, there are four main dependent variables; Inflation rate, Real GDP growth rate, exchange rate stability (% change in UZS/USD), and current account balance (% of GDP).

The following formula represents the calculation of Standard Deviation (Std. Dev.).

$$\sigma_x = \sqrt{\frac{1}{T-1}\sum_{t=1}^{T}(x_t - \bar{x})^2}$$

This formula of Standart deviation (Std. Dev)

Table 1. Descriptive Statistics of Fiscal and Macroeconomic Variables (2015-2024)

Variable	Mean	Std. Dev	Min	Max
GDP Growth (%)	5.4	0.8	1.6	7.4
Inflation Rate (%)	12.8	3.2	9.3	17.5
Budget Balance (% GDP)	-2.8	0.9	-4.3	-1.5

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Revenue (% GDP)	28.5	2.1	25.8	32.1
Expenditure (% GDP)	31.3	2.3	28.5	35.2
Public Debt (% GDP)	32.8	7.4	24.3	45.6

Note: Data compiled from Ministry of Finance of Uzbekistan, Central Bank of Uzbekistan, and IMF sources

Prepared by the author based on data from the Ministry of Finance of Uzbekistan, IMF

The empirical analysis follows three approaches. First, the trend analysis seeks to establish the change in financial and macroeconomic indicators that relate to the 2017 reforms. Secondly, the correlation analysis seeks to understand the relationship between the budget policy indicators and the macroeconomic stability indicators. Finally, the comparative analysis seeks to compare the performance in the financial markets in Uzbekistan to the other Central Asian nations.

Tahlil va natijalar

The study considers two phases, pre-reform (2015-2016), where budget constraints were imposed rigid and non-transparency was one of the biggest issues in government expenditure, and post-reform (2017-2024), where both the processes of deregulation and integration/consolidation were put forward with strengthened budget controls. Revenue mobilization continued steadily, increasing government revenues from 27.8 percent of GDP in 2015 to 30.4 percent of GDP in 2023. This revenue enhancement was driven by broadening tax base and reducing subsidies. The government spending also decreased. By 2023 the authority's spendings had come down of the GDP from 33.5% in 2017 to 31.8% in 2023. Expenditures were also shifted toward developmental use; Capital expenditure increased while subsidies went down.

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Thus deficit had come down from 3.8% of the GDP in 2017 to 1.9% in 2023. The government debt, after an initial upswing, stabilized at 38% of the GDP in 2023.

Table 2. Fiscal Indicators - Pre Reform vs. Reform Period

Indicator	2015-2016 Avg.	2017-2019 Avg.	2020-2024 Avg.
Revenue (% GDP)	27.5	28.8	29.7
Expenditure (% GDP)	30.2	33.1	31.4
Budget Balance (% GDP)	-2.7	-4.3	-1.7
Public Debt (% GDP)	24.5	32.8	37.2
Capital Exp. (% Total)	26.1	30.4	33.8

Note: Averages calculated from annual data.

Prepared by the author based on data from the Ministry of Finance of Uzbekistan, IMF

The macroeconomic environment has become stable together with the fiscal reforms.For example, inflation—peaked at 17.5% in 2017 following exchange rate liberalization—has fallen back to Between 2017-2023, the economy's real GDP per capita grew by 5.7 percent on average, so consolidation didn't impact on economic growth. Although it was in sharp decline in 2020 owing to Covid-19, it has since recovered. The exchange rate had stabilized after the initial depreciation during post-liberalization period and had decreased gradually to single digits from 2021-2023. The current account deficit, which had widened during the earlier reform years, shrunk from 7.1% in 2019 to 3.8% in 2023 as export performance and domestic demand remained under control. There is an implication from correlation that significant correlations between fiscal policy variables and indicators of macro stability are:

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$$\rho_{xy} = \frac{\sum_{t=1}^{T}(x_t - \bar{x})(y_t - \bar{y})}{\sqrt{\sum_{t=1}^{T}(x_t - \bar{x})^2}\sqrt{\sum_{t=1}^{T}(y_t - \bar{y})^2}}$$

This formula of Correlation Coefficient

Table 3. Correlation Matrix - Fiscal and Macroeconomic Variables

Variables	Correlation Coefficient
Budget Balance & Inflation	-0.68
Budget Balance & GDP Growth	0.42
Revenue & Inflation	-0.54
Public Debt & Exchange Rate Depreciation	0.61
Capital Expenditure & GDP Growth	0.73

*Note: ** suggests statistical importance at 5% level. Calculations based on 2015-2024 annual data.*

Prepared by the author based on data from the Ministry of Finance of Uzbekistan, IMF

Likewise, the negative correlation between the budget balance and inflation (-0.68) indicates that a reduction in the fiscal balance has a direct relationship with the reduction in the overall inflationary pressure. Further, the positive correlation between capital expenditure and GDP growth (0.73) emphasizes the positive effect of development expenditure on overall GDP growth. On the other hand, the public debt level has a positive correlation with the exchange rate depreciation (0.61).Compared with Central Asian peers, Uzbekistan's fiscal consolidation and overall macroeconomic performance appear broadly positive. Additionally, although Kazakhstan enjoyed a large fiscal consolidation due to lower deficits resulting from resource revenues, as well as the Kyrgyz Republic facing more volatility, Uzbekistan's consolidation is balanced and accompanied by strong economic growth. Despite this relative

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improvement over the regional counterparts, institutional quality and governance variables remain at low level.

The results in the analysis, therefore, have confirmed the fact that fiscal policy has contributed to the macro financial stabilization in Uzbekistan during the period 2017-2024 owing to a number of factors.First,fiscal consolidation has supported the moderation of aggregate demand pressures, leading to disinflation. It is indicated by large reduction in fiscal deficit. Second, strengthened fiscal discipline under the new regime supported policy credibility and anchor inflation expectations and assured central bank independence. Third, the coordinated pursuit of fiscal and structural policies contributed to external sustainability, indicated by decreasing current account deficit. Fourth,re-orientation of expenditure towards capital formation enhanced productivity capacity, aiding in the removal of supply-side constraints in infrastructure and fostering potential output growth.

These results are consistent with recent literature on the effects of fiscal policy on emerging markets. Batini find that “fiscal consolidations improve macroeconomic stability in countries with weak initial fiscal positions, consistent with Uzbekistan's experience”. Likewise, Escolano show that “composition matters: expenditure-based consolidations focusing on unproductive spending are less contraction than revenue-based ones, supporting Uzbekistan's approach of rationalizing subsidies while maintaining development spending”.

However, the experience of Uzbekistan also has some nuances. Unlike most of the consolidation episodes documented for advanced economies, Uzbekistan managed fiscal adjustment in a context of relatively high growth. This probably reflects the fact that growth-enhancing structural reforms were implemented simultaneously, which offset the contractionary fiscal effects. The results also inform the debate of expansionary fiscal consolidations, where in transition economies implementing reforms it was the structure of the fiscal adjustment and credibility of fiscal

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consolidation together with structural reforms that determined the macro outcomes. Fiscal discipline can be maintained along with stability through appropriate targets for deficits and fiscal rules. Moreover, investment expenditure and optimal social protection remain important. Moreover, improvement in fiscal institutions, debt management, and transparency, including in the budgetary area, would contribute to higher policy credibility. Finally, closer coordination between the financial and macroeconomic authorities will be necessary in order to avoid fiscal dominance and ensure consistent macroeconomic policy implementation.

Xulosa va takliflar

This study has its own limitations, which are seen as areas for further research. First, due to the shortened period, the ability to use more sophisticated econometric techniques is limited, for instance, in exploring dynamic relationships in the data. In future, this could be improved with more prolonged panel data, which could allow more sophisticated research techniques, such as "vector auto regression" (VAR) or "structure vector auto regression" (SVAR), to reveal causal linkages to "forecast fiscal multipliers in Uzbekistan."

Second, the quality and availability of data constraints specific to transition economies could influence the accuracy obtained in the results. The quasi-fiscal activities, though reduced, are not fully reflected in the available data. More work could be done in the future to derive more comprehensive measures of the augmented fiscal balance, including the operations of state-owned enterprises and contingent liabilities.

Third, this study is based on macroeconomic aggregates. The distributional effects of fiscal policies have also not been studied. There are several issues regarding income groups, regions and sectors, that could have been clarified if the data were disaggregated by household survey. Fourth, because the characteristics of liberalization and stabilization in Uzbekistan happen at the same time it cannot be generalized.

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However, any comparison analysis of similar process in other countries, for example Myanmar, Ethiopia, Angola etc., can reveal similar pattern.

Finally, there is a need to conduct forward looking analysis for check robustness of the government's finance against various shocks like large commodity price shock, a global slow down or a population dynamic changing.

Xulosa

This study examines the effectiveness of budget policy in macroeconomic stabilization of Uzbekistan for the reform period of 2017-2024.

The achievement of these outcomes can be explained by several channels for transmission, including lower aggregate demand pressures, better fiscal credibility with its anchor effects, external sustainability, and shifting the pattern of public spending towards productive investments. The case of Uzbekistan illustrates the possibilities of carrying out fiscal consolidation in association with economic growth, provided measures are taken to push the composition of spending towards development priorities.

From these results some implications are put forward in a broader sense, mainly to point out at the preservation of fiscal discipline through the utilization of fiscal rules, enhance quality of revenues collection, optimize the spending for capital and social infrastructure and sustain the institutional framework of fiscal management and its transparency. Also in terms of building countercyclical fiscal capacity, the coherent interaction between monetary and fiscal policy would be a crucial element.

In conclusion, Uzbekistan's reform process is a learning lesson for other transition countries undergoing economic liberalization and stabilization at the same time. While a lot of success was achieved, Uzbekistan is still called upon to increase the solidity of its fiscal framework, boost the efficiency of its public spending in capital assets and

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public infrastructure as well as fostering the attainment of inclusive and sustainable economic growth.

Foydalanilgan adabiyotlar

[1] Acemoglu and Robinson (2020) argue that macroeconomic stability is a fundamental prerequisite for sustainable development and poverty reduction in emerging economies.

[2] Blanchard (2021) discusses the renewed importance of fiscal policy in macroeconomic stabilization in the post-pandemic context

[3] Fatás and Mihov (2023) provide empirical evidence on the relationship between fiscal policy volatility and macroeconomic outcomes using US state-level data.

[4] Asian Development Bank (2022) examines fiscal consolidation efforts across Central Asian economies and their impact on macroeconomic vulnerabilities.

[5] International Monetary Fund (2023) provides detailed analysis of Uzbekistan's fiscal reforms and macroeconomic performance in the 2023 Article IV consultation report.

[6] Batini et al. (2021) analyze fiscal multipliers and their use in macroeconomic projections, with implications for consolidation strategies.

[7] Escolano et al. (2020) examine fiscal multipliers and their determinants in emerging market economies.

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