Ways to Ensure Transparency in the Contest of Accelerating Economic Growth in Uzbekistan

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ABSTRACT

The article analyzes approaches to the implementation of the state budget policy in the context of accelerating economic growth. The authors structure the academic discussion about long-term economic growth and its short-term fluctuations and come to the conclusion that in the current situation in Uzbekistan, fiscal policy measures that smooth out fluctuations in economic activity are limited, and there are no opportunities to increase public spending in the medium and long term. Therefore, it is necessary to change the structure of expenditures and at the same time qualitatively transform budgetary institutions in order to create prerequisites for long-term economic growth, and also presents facts and analysis of how to ensure budget transparency based on the same budgetary reforms.

Keywords: Economic Growth, Budget Policy, Government Spending, Budget Transparency, Budgetary Institutions.

Introduction

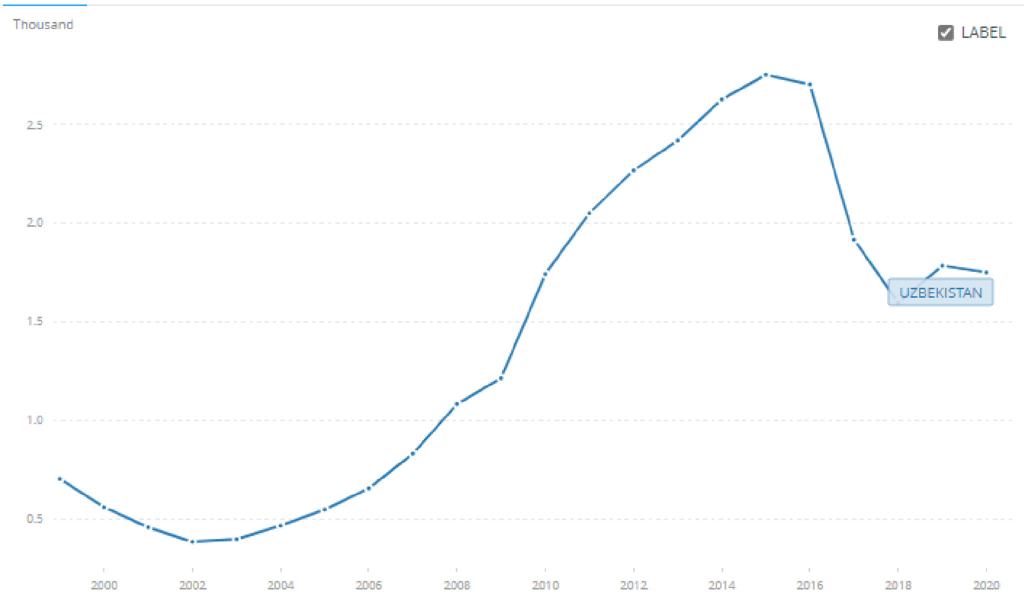
In order to accelerate the development of sectors of the economy and the social sphere, the wide use of scientific and innovative potential with the full mobilization of scientific, intellectual and financial resources, the identification of priority areas for the continuous reform of science in the future, the training of independently thinking highly qualified personnel with modern knowledge, the promotion of work on the modernization of scientific infrastructure to a qualitatively new level, as well as in accordance with the State Program for the implementation of the Action Strategy in five priority areas of development of the Republic of Uzbekistan in 2017 - 2021 in the "Year of Science, Education and Digital Economy Development" [1].

In the context of a slowdown in economic growth in Uzbekistan at the end of 2019 due to the Pandemic, the discussion about the impact of budget policy on economic development has resumed. This refers to the need for stimulating countercyclical measures to mitigate the negative impact of market (short-term) factors, as well as to create conditions for sustainable long-term economic growth.

Discussion And Results

When talking about economic development or growth, economists usually mean more than just an increase in real GDP. Broader definitions of income growth of the population or the country as a whole, including the assessment of the welfare of society [2], are becoming central concepts in measuring the level of economic development. The reduction of poverty, the reduction of social polarization in society, the achievement of social justice are very closely and intricately related to economic development, but these aspects often remain outside the scope of discussions of economic growth problems. Thus, the development of a social protection system that prevents or smoothes the impact of negative shocks on the well-being of individuals (as a rule, those who have a negative attitude towards risk) should be considered as an integral goal of improving the well-being of society [3]. Fiscal and monetary policies cannot simultaneously achieve goals as diverse as macroeconomic stability, addressing market failures, income redistribution, and stimulating economic development. These goals often conflict with each other, and a solution must be found that provides some compromise between them.

Fig1. Gross domestic product per capita from 2000 to 2020.



GDP per capita is gross domestic product divided by the average annual population. GDP is the sum of the gross value added created by all resident producers in the economy plus any taxes on products and minus any subsidies not included in the value of products. GDP per capita is presented in US dollars per person (see Figure 1).

The economy of Uzbekistan assumes budget transparency, the following can be considered: In 2022, Uzbekistan's GDP per capita will be 2.1 thousand dollars. This is stated in the conclusion of the Accounts Chamber of Uzbekistan on the State Budget for 2022, UzDaily.uz reports. According to the presented budget, Uzbekistan's GDP next year will be $74.2 billion.

In 2022, the real growth rate of the economy is projected at 5.9 percent. Value added in projected GDP amounted to 778,153.6 billion soums (92.6 percent of GDP), while net tax revenues from products and export-import operations amounted to 61,865.9 billion soums (7.4 percent). In industry, this indicator amounted to 217,683.5 billion soums (25.9 percent), in construction - 52,516.3 billion soums (6.3 percent), in agriculture, forestry and fisheries - 207,602.8 billion. minds (24.7 percent). The expected real growth was 8.1 percent in construction, 7.0 percent in industry, 6.5 percent in services, and 3.1 percent in agriculture, forestry and fisheries [3].

Thus, when studying economic growth, it is customary to distinguish two different components: long-term and short-term [2]. Long-term growth is the movement of the economy along the "equilibrium" trajectory. The long-term (structural) component of growth shows how many goods and services the economy is capable of producing. This is determined by fundamental factors, that is, the amount of labor and capital available, as well as total factor productivity. Therefore, the long-term component of growth fluctuates insignificantly, depending on changes in the volumes of factors involved in production and the dynamics of their efficiency.

In 1994 - 2020 the structural component of Uzbekistan's GDP growth rates, according to our estimates, was about 3-4% per year. The market component driven by the business cycle varied from 0 to 2 p.p. until 2010, while the component driven by oil prices ranged from 0 to 3 p.p. During the crisis of 2010-2019 component of the business cycle in a broad sense, including the external economic shock of the global crisis, became negative, declining to about -12 p.p. However, due to structural growth (3.5 p.p.) and high prices for energy and raw materials (the contribution of this component amounted to about 1 p.p.), the fall in Russian GDP, taking into account the structural component, was not so significant (-7.8%).

In 2010–2020 the cyclical component, including the global economic environment, has become negative and is about -2 p.p. As a result, Uzbekistan's GDP growth, which is currently close to the structural growth rate (3.4%), is largely due to the high conjuncture of the world raw materials and energy markets, which compensates for the negative contribution of cyclical factors (about 2 percentage points). It is possible to analyze the short and long term in terms of the possibility of changing the volume and level of use of economic growth factors. At the same time, the short-term, as a rule, is understood as the period in which the use of growth factors (labor and capital) can be changed, and the long-term is the period in which both the volumes of factors involved in production and the technologies used can change.

At the same time, it is more difficult to consider a longer time horizon of 5–10 years, which is necessary to create favorable prerequisites for sustainable long-term development due to the peculiarities of the political process in Uzbekistan, and it is not very interesting, since it is supposed to receive benefits from the implementation of structural reforms, most of which are unpopular, only through some years.

Following Rodrik (2003), the concept of long-term economic growth can be broadly illustrated using the standard production function (see Figure 3). In it, output depends on the factors of production (physical and human capital) and the technology used (total factor productivity). The initial conditions for long-term growth - the endowment of production with factors and the technologies used - are endogenous, primarily in relation to geographical location, institutional development or the degree of international economic integration. The advantages of countries stem from their geographical position (endowment with natural resources, climate, proximity to navigation routes, etc.). External economic integration determines the benefits and costs of the exchange of goods, services, capital and labor [5].

The level of institutional development characterizes the quality of the formal and informal socio-political framework for the interaction of economic agents, the rules and scope of state intervention in the economy, which create the necessary conditions for effective development and make it more transparent.

Institutional structures, primarily property rights, rights and obligations fixed by a system of contracts, are a fundamental source of long-term economic growth. Moreover, the consequences of certain measures that determine institutional development can be factors that accelerate or slow down growth.

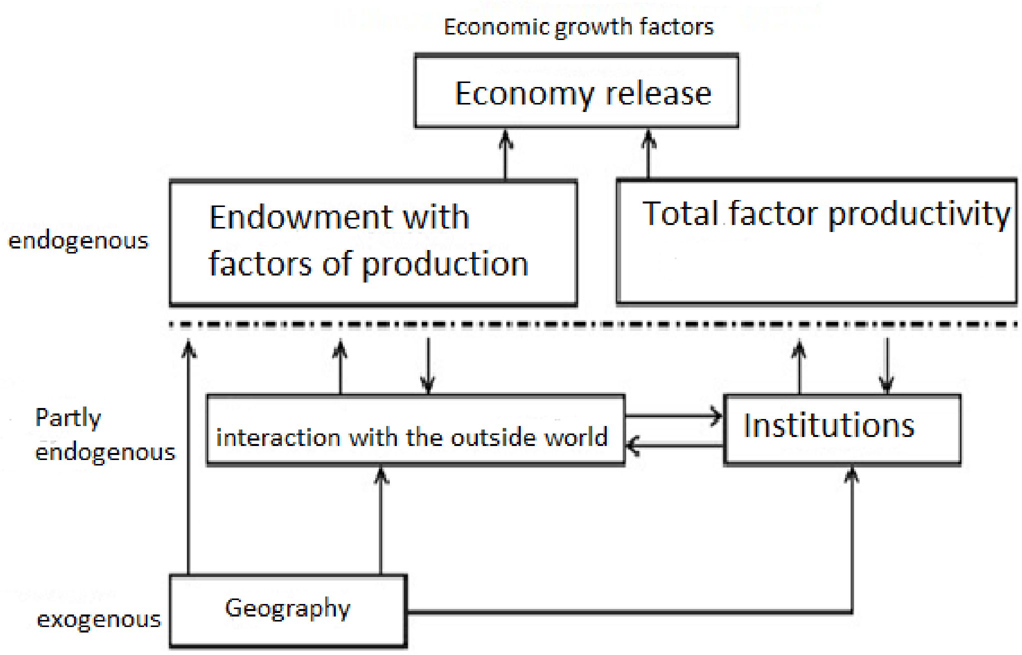
Thus, it can be confidently asserted that inequality within individual countries slows down the growth of their economies, although the channels of this impact are not well understood. E. Helpman names three controversial channels of such influence (Helpman, 2004).

First, inequality accelerates growth because the propensity to save out of profits is higher than out of wages. Accordingly, the redistribution of income from wages (from the poor) in favor of profits (to the rich) increases aggregate savings, and hence accelerates growth.

Second, inequality stifles growth because the poor, due to capital market frictions, have less access to credit. Substantial inequality of ownership reduces aggregate investment because the poor are unable to participate in profitable investment projects.

Thirdly, inequality slows down growth, as the median voter prefers redistribution of income (because, as a rule, the median income is below the average) [4]. At the same time, redistribution is carried out at the expense of taxes, the distorting role of which is significant. Therefore, an economy with high taxes will grow more slowly. In addition, one can highlight the negative impact of inequality on growth due to the poor access to education and the resulting decline in the quality of human capital, as well as the inability to make responsible political decisions in polarized societies.

Fig.3. Tabular model of economic growth factors and the relationship between them.



- In general, we can say that the relevant areas that will increase the revenue base of budgets at all levels should be:
- improving the system for evaluating the effectiveness of tax incentives and canceling those that do not meet the efficiency criteria;
- carrying out effective work on planning receipts from certain incomes that have a special purpose;
- attraction of investments and expansion of income potential, including through non-financial instruments;
- increasing the efficiency of the use of state property;
- in the issue of increasing revenues to all budgets of the budgetary system of the Republic of Uzbekistan, a comprehensive harmonious policy at the state and local levels is important.

The integrated implementation of the proposed measures will create conditions for expanding the revenue potential of the territories, identify reserves for the growth of regional budget revenues, improve their balance and sustainability, and create the financial basis necessary to ensure socio-economic development, improve the living standards of citizens.

Conclusion.

Unfortunately, there are no simple measures of budgetary or monetary stimulation of economic growth that have a quick effect. It is very difficult to carry out important reforms quickly and painlessly. The scope for short-term fiscal policy measures to smooth fluctuations in economic activity is limited. The prerequisites under which short-term incentive measures are effective are not met in Uzbekistan, the output is extremely weakly responsive to an increase in government spending. At the same time, there are also no opportunities to increase public spending in the medium and long term. As a result, the only solution remains the search and formation of prerequisites for long-term growth both in the structure of expenditures and in budgetary institutions: measures should be aimed at increasing the volume and improving the quality of factors of production (human and physical capital), at increasing total factor productivity, including through the development of infrastructure, transport and communications, and the improvement of public institutions. At the same time, the depth of these measures critically depends on the political will and readiness of the country's leadership for reforms.

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