

Management of Budgetary Risk in Ensuring Macroeconomic Equilibrium – Priority Direction of Budget Policy in Uzbekistan

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Abstract. The article identifies and evaluates the possibility of implementing fiscal policy in Uzbekistan in the context of a pandemic as a result of the formation of fiscal policy and its negative impact. In turn, proposals and recommendations have been developed to address the emergence of budget risk and the formation of attitudes towards it.

Key words: pandemic, budget risk, fiscal policy, economic security, budget losses, cost savings.

Introduction

2020 year has come to an end with the introduction of measures aimed at stabilizing the macroeconomic balance for many economies. During this period, many countries also imposed a ban on changes in budgetary policy within the framework of the implementation of economic policy as a result of the pandemic. This has shown the relevance of tackling categories such as budget deficit, budget risk in the first place.

Decree of the President of the Republic of Uzbekistan No.PP-4679 “On measures to ensure the stability of the state budget of the Republic of Uzbekistan during the coronavirus pandemic and timely financing of the first-ever events” was adopted on 15th of April in 2020. According to the Decree, the government was instructed to make a decision to ensure the stability of budgets at all levels during the quarantine period by optimizing the expenditures of the Republican budget of the Republic of Uzbekistan, the budget of the Republic of Karakalpakstan, the local budgets of the regions and Tashkent City and transferring some expenses planned for the 2nd quarter of 2020. Proceeding from the Decree, on April 16, 2020, Cabinet of Ministers of the Republic of Uzbekistan adopted the resolution No.232 “on additional measures to ensure the stability of the state budget of the Republic of Uzbekistan for 2020 and to optimize its expenditures”. According to this resolution, among the first measures of the budget costs around 6 trillion soums are foreseen to be reduced.

In conclusion, it turned out that the nobility in the conditions of the pandemic caused the need for a budget policy to have a solid basis in ensuring macroeconomic balance. It is urgent to include the category of Budget risk in the budget legislation of Uzbekistan and to implement permanent measures with this category.

Literature review

The issues of management of Budget Policy and increasing the effectiveness of its organization were studied by scientists of Uzbekistan. Although Budget risk is being studied as an economic category in the world sciences, but budget risk isn't being studied in the structure of financial policy of Uzbekistan. When it comes to financial risks, there are many research findings on cases where money laundering is directly related to the occurrence of losses in the financial market. In our view, failure to organize and ignore budget risk management may ultimately lead to the reflection of high points of the budget deficit.

Although budget risk has not been studied, issues of financial security, in particular budget security, have been studied and researched by some Uzbek scholars and researchers.

Including prof. A. Burkhanov analyzed the essence of financial security, the state of financial security of the national economy on the basis of indicators of financial security of the country. He developed his own scientific conclusions aimed at eliminating the factors that negatively affect the provision of financial security. He also suggested achieving the group of financial security indicators of the country by measuring macroeconomic indicators¹.

Prof. D.Rakhmonov studied the priorities of financial security of the State. In ensuring financial security he considered expedient to pay attention to the followings:

- to link inextricably with the competitiveness of the country;
- to act as an element of economic security of the country;
- to examine how to identify the problems of financial security along with the same type of problems of the general economy².

N. Ismailova, one of the researchers, tried to study whether ensuring fiscal security is a guarantee of national economic security. Table 1 below lists a number of factors as threats to the fiscal security of the country's economy during her research³:

Table 1
Threats to the budget-financial security of the country's economy

Budget system	Instability of budget revenues
	Non-fulfillment of financial discipline by payers and supervisory bodies
	Misuse of budget funds
Budget policy	Inconsistency of budget expenditures with macroeconomic indicators
	Striving for the economic development of the regions and deficit of Republican budget
	Imbalance in the distribution of budget funds
	Lack of budget resources or their misuse

In our view, fiscal policy as a link in financial security has been studied from a macroeconomic point of view, with a focus on ensuring its sustainability through security indicators. Since budget risk is not studied as a separate object and the main focus is on security components, there is a need to study this category.

At the same time, it is important that the risks of budget revenue policy have also been studied by Uzbek scientists, and the introduction of these elements in the practice of taxation has begun. In particular, prof. Sh. Toshmatov gives scientific conclusions on some risks in the implementation of tax reforms. In this regard, opinions are expressed on the level of impact on budget revenues with the value added tax reform. In particular, "Reducing the value added tax rate in our country has been a topic issue for several years, and reforms in this area can only be supported. In this case, when setting the rate, it is necessary to make accurate calculations, that

¹ Burxanov A.U. The essence of financial security of the country and some topical issues of its provision // Scientific electronic journal "International Finance and Accounting". № 4-5, August-October, 2018

² Raxmonov D.A. The essence and features of public financial security // Improving the financial and credit mechanism of agricultural management: Proceedings of the International scientific-practical conference, (April 2014). - Tashkent: "Economy and Finance", 2014. - B. 122-124.

³ Ismoilova N. Ensuring fiscal security is a guarantee of national economic security // Business Expert. 12/29/2017 - №12 (120) -2017.

is, the share of VAT in the budget of the Republic is the highest, which can cause problems in the formation of budget revenues”⁴.

At the same time, with the adoption of the Tax Code of the Republic of Uzbekistan on December 30, 2019, the reforms in the tax system have reached a new stage. According to the Code, currently, based on the experience of advanced countries, a risk analysis program based on 42 criteria will be launched. This process is managed without the human factor, and on its basis, business entities are divided into 3 corridors – green, yellow and red, depending on the level of risk. If deficiencies are identified, an in-house audit of the tax audit, a new mobile audit, and a tax audit may be conducted. Tax audits are never carried out on businesses that have paid their taxes on time and on the green corridor⁵.

It should be noted that the introduction of tax risk-analysis practice in the management of budgetary revenues will facilitate the management of funds, while increasing the efficiency of work. In this regard, the implementation of budget cost management remains an urgent task.

In our opinion, of course, there is no doubt that budget revenue plays an important role in assessing budget risk. However, there are the following problems in our country on budget financing –implementation of budget expenditure:

- lack of a complete studies on the risk of budgeting by scientists;
- non-adoption of legal norms on the application of budget risk in practice;
- lack of study and training of staff in the theoretical and methodological bases of budget risk assessment skills in the budget system.

As noted above, budgetary risk has been poorly studied or never studied by scientists from Uzbekistan. Therefore, approaches to budgetary risk were not reflected in the legislation either.

In particular, the budget Code of the Republic of Uzbekistan adopted on December 26, 2013 does not include provisions aimed at identifying, assessing and ensuring budgetary risk (or security). Also in the legislation documents, the views on this category are not met at all. In our opinion, the existence of these cases makes it necessary to establish the scientific and theoretical basis of budgetary risk and strengthen its legislative base.

Another problem with the category of budgetary risk is that the budget literacy is not at a high level, firstly, it does not allow the organization of the budget process at a high level, and secondly, it leads to the fact that the proper application of the existing budget rules in practice remains an invisible obstacle.

The category of budget risk has been studied relatively more by Russian scholars, and Russian legislation has also begun to define specific approaches to this category since 2013. In this regard, in his address to the Federal Assembly on June 13, 2013, Russian President Vladimir Putin recommended the introduction of practices such as the efficient use of budget funds and the identification and assessment of budget risks. As a result, the Decree of the Government of the Russian Federation No. 2593 on December 30, 2013 “On approval of programs to increase the effectiveness of public (government and municipal) financial management for the period up

⁴ Toshmatov Sh.A. The concept of tax system reform: risks and forecasts // Business-Daily. 12.04.2018 y. Electronic source: <http://biznes-daily.uz/uz/component/content/article/56224--solliq-tizimini-isloq-qilish-kontspitsiyasi-risk-va-prognozlar>

⁵ How does a Risk Analysis Program, which is managed without a human factor, create convenience for taxpayers? Online edition of the newspaper "Xalq so`zi". January 14, 2020 .. Electronic source: <http://xs.uz/uzkr/post/inson-omilisiz-boshqariladigan-risk-analiz-dasturi-solliq-tolovchilar-uchun-qandaj-qulajlik-yaratadi>

to 2018” was adopted⁶. According to the Decree, priority will be given to the implementation of the following components through the establishment of a budget risk management system:

- formation of risk list;
- risk assessment on probability of occurrence;
- level of exposure to risks;
- ability to manage risks;
- developing of complex measures to minimize and eliminate the consequences of risks.

By April 15, 2014, the Resolution of the Government of the Russian Federation No. 320 “On the approval of state programs of the Russian Federation on management of state finances and regulation of financial markets” was adopted. According to the document, special attention is paid to the introduction of internationally recognized activities of public financial control – independence, objectivity, efficiency, preventive orientation, risk-based control.

The experiments noted can be viewed as an example of the work done on the occurrence of approaches to budgetary risk and their introduction into practice. This means that in our country, too, it is time to carry out experiments aimed at identifying and assessing budget risk.

In this regard, let’s look at the views of Russian scientists on budget risk. In Table 2 below, we can see that T. Kuvaldina’s research has managed to systematize the views of a number of scientists on budget risk.⁷

Table 2
Approaches by Russian scientists to the category of “budget risk”

Author	The content of the approach
O.B.Biglay, S.V.Zenchenko, S.V.Kobryanov	Budgetary risk refers to the degree of deviation of the planned target indicators of budget execution within the framework of the budgetary process and budgetary policy
D.V.Gorokhova	Budget risk is the occurrence of budget losses as a result of external factors, management decisions, quality and number of negative impact of the analysis
V.V.Gamukin	Budget risk reflects constant changes in the budget process that lead to significant changes in budget performance

⁶ Dispute with the Government of the Russian Federation on December 30, 2013 N 2593-r "On approval of programs to increase the effectiveness of public (state and municipal) financial management for the period up to 2018". GARANT system: <http://base.garant.ru/70555830/#ixzz6J0IXoaVV>

⁷ Kuvaldina TB Budget risk: understanding and management system // Bulletin of the Siberian Institute of Business and Information Technology. - 2017. –№2 (22). Source: <https://cyberleninka.ru/article/n/byudzhethnyy-risk-ponyatie-i-sistema-upravleniya/viewer>

M.A.Klyuchkina	Budgetary risk is the occurrence of deviations from the plan in the implementation of the budget.
O.I.Tishutina	Regional budget risk is characterized by the occurrence of situations that pose a threat to the stability of the budget in the regions of the country

In the definitions of the above-mentioned concept of “budgetary risk”, it is mainly implied that its budget indicators are at risk of change. It is stipulated in them that it is possible to evaluate the occurrence of risk in quantitative terms. In general, the budget serves as a scientific and theoretical basis for determining the risk and its use in the assessment.

Discussion and results

In our view, it is possible to systematize the budget risk in terms of quality and quantitatively, and then increase the efficiency of management. Here, risks arise as a result of the influence of internal factors and external factors on the budget system.

As a result of the internal factors of the budgetary system, the following types of risks may arise:

- failure to comply with the deadlines for the implementation of the process and the implementation of the cost budget;
- inability to cover expenses due to lack of timely fall of budget revenues;
- budget literacy rate of employees in the budget system;
- mutual inconsistencies in budget legislation;

Among the factors beyond the budgetary system, the following can be attributed:

- inflation;
- economic crisis;
- devaluation processes and others.

It should be noted that the implementation of budget expenditures less than planned does not mean savings. On the contrary, it means that the result to be achieved at the expense of these costs has not been achieved or the quality has decreased. For example, without signing a contract with a professor for a vacancy in a higher education institution, budget expenditures can be considered “saved” by “distributing” the teaching load corresponding to that state among existing professors. This, of course, does not mean a violation of budget legislation or any normative document does not specify liability for it.

In our opinion, in this case there is a budget risk that is difficult to quantify and assess. In turn, in the first place, the burden that a professor has to carry is borne by others, and this has a serious impact on the quality of education. Second, the savings are not left to the budget institution and are not considered as “earned money”. Therefore, efforts to save budget expenditures do not reflect austerity, but create conditions for reducing socio-economic outcomes.

Professors N. Jumaev and K. Khotamov emphasized this in their articles. In particular, they note that the coronavirus pandemic, which began in 2020, has led to attempts to temporarily suspend the payment of professors and teachers in many higher education institutions. In particular, they note that “our observations and some appeals show that organizations and

institutions that have not suffered any serious losses under the pretext of coronavirus, and in some cases no losses at all, have lead their employees to take “voluntary-compulsory” and “compulsory” vacation at their own expense⁸.

In our opinion, as long as the occurrence of budgetary risk can lead to violations of the rule even in labor relations. In this context, we think that the timely and targeted use of budgetary funds will reduce the risk of budgeting.

Another factor that raises the risk of budgeting is that it is budgetary literacy. It can be noted that financial irregularities arise as a result of financing within the framework of budgetary funds. For example, according to the Ministry of Finance of the Republic of Uzbekistan, in the first half of 2018 the volume of budget discipline violations amounted to 21.7 billion soums⁹.

Besides, the misunderstanding in the conduct of work documents in the budget process also poses risks associated with budget literacy. For example, an economist employee of an educational institution does not make it possible to carry out expenses in a timely manner, as a result of incomplete filling of documents through the information system of Public Finance Management (ISPFM) program online. As a result, financing can be delayed.

In our opinion, it is expedient to introduce monitoring of employees’ document records through ISPFM program. For example, it is desirable to carry out by determining the number of documents returned by the employees of the financial authorities for refill in the total number of documents that the employee has filled out for a month. This can be seen in the formula below::

$$BL = \left(1 - \frac{M_T}{T_T}\right) \times 100 \quad (1)$$

Here:

BL – Budget Literacy;

M_T – the number of documents filled in by mistake (per month or per year);

T_T – total number of completed documents (per month or per year).

The budget literacy indicator can fluctuate between 0 and 100. Based on the evaluation of this indicator through the rating system, it is possible that the budget risk is as follows in the form of Table 3.

Table 3
Budget literacy risk assessment¹⁰

Budget literacy score	Budget literacy rate	The risk of budget literacy
91-100	Excellent	Low
81-90	Above the middle	Below the middle
71-80	Average	Average
61-70	Satisfactory	Above the middle
51-60	Low	High
0-50	Unsatisfactory	Very high

⁸ Jumaev N., Khotamov K. Coronavirus should not be an excuse for a breakdown in an employment relationship. “Xalq so`zi” newspaper, online edition, April 3, 2020.

Electronic source: <http://xs.uz/uzkr/post/koronavirus-mehnat-munosabatlarining-buzilishiga-bahona-bolmasligi-kerak>

⁹ Data of the Department of State Financial Control of the Ministry of Finance of the Republic of Uzbekistan. Electronic source: <https://www.mf.uz/uz/news/2851.html>

¹⁰ Table is formed by the Author

In our opinion, by introducing these criteria into the ISPFM program, it will be important to check the budgetary literacy of the employees of each budgetary system and ensure their participation in the programs of professional development, depending on who has the highest budgetary risk. At the same time, it will be possible to carry out material stimulation with this soundness.

Another macroeconomic factor affecting the budget risk is the presence of inflation and devaluation. It is known that in the budget, funds are planned for the next fiscal year at the expense of the current year. The rate of inflation announced by the Central Bank in the 2020 is about 15 percent. This creates conditions for the fact that in the implementation of the planned public procurement in the current year, it is not possible to fully pay the price of the commodity, or to be forced to buy a low-quality commodity.

For example, suppose that a budgetary institution allocates 300,000 soums for the purchase of 3 kg of paint for current repairs in the next fiscal year. However, due to the inflationary (and devaluation processes in relation to imported goods) situation, there is a lack of funds allocated for the purchase of the planned volume of goods. In turn, the cost of this 3 kg of paint may be more expensive than 300 thousand soums in the next fiscal year.

In this regard, it is expedient to apply the practice of assessing the net present value (or discount, NPV, net present value), which allows to take into account the unstable fluctuations in inflation and exchange rate, in order to ensure price stability in the implementation of budgetary costs of imported goods (services).

We will try to understand this with the example above. It will be necessary to determine the future value of money by re-forming the following formula of the net present value.

$$NPV = \frac{BE}{1 + \frac{I}{100}} \quad (2)$$

Here: BE– Budget Expenses, I – Inflation.

Through the 2-formula, we will be able to find the value of our current funds in the coming period. By re-forming this formula, we can determine how much funds will be available to us in the future.

$$BE = NPV \times \left(1 + \frac{I}{100}\right) \quad (3)$$

through the 3-formula it is possible to find out the amount of future necessary expenses. Now, with the 3 formula above, we will determine the financing size for 3 kg of paint.

$$BE_b = 300000 \times \left(1 + \frac{15}{100}\right) = 300000 \times 1,15 = 345000 \text{ c}\ddot{y}\text{M}$$

So, next year (when inflation is 15%) we will need 345,000 soums if 3 kg of paint is 300,000 soums in the current period through budget expenditures. By practicing this method, the following positive aspects are achieved:

- budget deficit is prevented;
- no price instability in public procurement;
- budget quality will increase;
- there will be a mechanism to take into account the impact of inflation on budget expenditures;

- The share of budget risks arising from lack of funds is reduced.

Conclusion and recommendations

Based on the research, it can be said that the introduction of budget risk management practices will make it possible to further increase the efficiency of budget funding.

There is no doubt that budget revenues play an important role in assessing budget risk. However, we believe that the following problems exist in our country in terms of budget financing - the implementation of expenditures:

- incomplete study of budget risk by scientists;
- lack of legal norms for the practical application of budget risk;
- lack of study and training of staff in the theoretical and methodological bases of budget risk assessment skills in the budget system.

It is also important to use budget literacy risk assessment and net present value methods in budget risk mitigation.

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