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The Importance of Fiscal Policy in Ensuring Economic Stability

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ABSTRACT.

This article mainly analyzes the theoretical foundations of achieving sustainable growth through effective management of public finances and fiscal policy of the state. Also, the implementation of fiscal strategies of the Republic of Uzbekistan for 2023-2024 and the forecast for 2025 were taken for analysis, and conclusions and proposals on the analysis are given.

Keywords. Sustainable economic growth, public debt, budget deficit, tax burden, fiscal policy.

Introduction.

The tasks set out in the Decree of the President of the Republic of Uzbekistan No. PF-60 “On the Development Strategy of New Uzbekistan for 2022-2026” include taking measures to reduce the GDP growth rate by 5 percent in 2023 and the fiscal deficit by 3 percent, and subsequently ensuring that inflation and the State Budget deficit do not exceed this indicator, and maintaining macroeconomic stability through monetary, credit, fiscal and improving structural reforms, analyzing the main factors of inflation, determining measures to prevent price increases, and determining measures for the effective implementation of public investments.

Bringing the state finance management system to a new level and further strengthening budget discipline, increasing the transparency of the tax and budget system, increasing the efficiency and effectiveness of the use of funds from the State Budget of the Republic of Uzbekistan, introducing modern methods of planning the State Budget for the medium term, and implementing the Law of the President of the Republic of Uzbekistan “On the State Budget of the Republic of Uzbekistan for 2020” In order to ensure the implementation of Resolution No. PQ-4555 dated December 30, 2019 "On measures to ensure the implementation of the budget, the Cabinet of Ministers adopted Resolution No. 506 "On approval of the Strategy for improving the state finance management system of the Republic of Uzbekistan in 2020-2024" (VM-506, 2020).

Literature review.

Finance expresses the processes of forming and using the economic resources of institutions in monetary form. The content of public finance is the processes of forming and using the economic resources of the state in monetary form. The purpose of public finance management is to ensure activity aimed at achieving state goals (Lawson, 2015).

According to Lawson (2015), "public financial management is understood as the set of laws, rules, systems and processes used by governments to raise revenues, allocate public funds and implement public spending, and to account for funds and audit results."

A seminal work on the empirical analysis of fiscal policy was Barro (1981), who proposed a reduced-form model for estimating the impact of fiscal shocks on U.S. economic activity and found a fiscal spending multiplier close to zero. Later, Ramey and Shapiro (1998) found that expansionary fiscal policy can have a positive effect on GDP but can reduce private consumption.

Blanchard and Perotti (2002) used a systematic VAR approach to measure the impact of fiscal policy on GDP, noting that government spending and tax increases have positive and negative effects on economic activity.

Kuttner and Posen (2002) studied Japan over a period of time and found that stimulus policies significantly increased GDP, with the tax cut multiplier exceeding the expenditure multiplier by 25% after four years.

Perotti (2005) found a positive but decreasing fiscal expenditure multiplier for five OECD countries. Mountford and Uhlig (2009) conducted a study to assess the impact of fiscal shocks on economic activity in the United States. Their findings suggest that deficit-financed tax cuts stimulate the economy. However, the fiscal expenditure multiplier is less than unity because increased government spending discourages domestic and foreign investment. Kirchner et al. (2010) found that fiscal expenditure multipliers in the Eurozone were positive but decreased as credit and debt increased relative to GDP. Berg (2015) conducted a study that included both expected and unexpected shocks and found that financial stability was a key factor in the German fiscal expenditure multiplier. Boiciuc (2015) examined the impact of fiscal policy on Romanian GDP using a TVP-VAR-SV model. The findings suggest that fiscal policy has a weak impact on economic activity, with the parameters showing limited changes over time.

Glocker et al. (2019) analyze the fiscal spending multiplier in the United Kingdom using a time-varying VAR model. They find that the multiplier is positive and below unity during economic expansion but exceeds unity during recessions, suggesting that the impact of fiscal spending shocks is cyclical.

Similarly, Canavire-Bacarreza et al. (2013) use a SVAR model to examine the impact of various taxes on GDP growth in Argentina, Brazil, Mexico, and Chile. The results show that income taxes have no significant impact on GDP growth, while corporate profits taxes have a moderate negative impact, particularly in Argentina, Chile, and Mexico.

Research methodology. In the process of conducting the research, while analyzing the literature review, the role and importance of monetary policy in managing public finances, the importance and necessity of state budget revenues, expenditures, state debt, government securities, the opinions and views of scientists were studied in detail, and recommendations based on these opinions were made. In the process of reforming public finance management, including state financial control and budget audit, as well as budget risk, the research paradigm used quantitative, objective, and scientific methods.

Analysis and results. The main task of macroeconomic policy is to ensure stable economic growth in the context of stable prices and a competitive external economic position. To achieve this goal, it is necessary to coordinate and improve the budgetary and tax authorities.

The final results of measures taken for each of these areas inevitably affect the state of the other. The lack of effective coordination of economic policy measures leads to instability in the financial sector, which leads to an increase in interest rates, the emergence of pressure on the exchange rate, a rapid increase in the inflation rate and a decrease in economic growth. However, the directions of fiscal policy are determined and implemented by various official bodies. Each of these bodies has its own resources, constraints, and incentives to carry out its tasks. Based on the current state of budget execution in the Republic of Uzbekistan, a number of factors can be identified that contribute to the further strengthening of the role of local budgets in implementing the government's economic and social policy. For example, by increasing the profitability of local financial institutions in budget execution, ensuring the correct and rational use of budget expenditures and encouraging the search for new sources of budget revenues.

The current stage of development of the budget system in the Republic of Uzbekistan requires effective management of extremely responsible tasks based on ensuring the common interests of the state budget and social policy. In the context of a complex and uncertain situation in the world, a slowdown in global economic growth, the economy of Uzbekistan maintains stable growth rates. According to the forecast for 2025, which forms the basis of the budget project and is presented in the first section of the publication, the economic growth rate is 6.0 percent. In 2026-2027, economic growth rates are expected to increase to 6.1 percent and 6.3 percent, respectively.

The draft state budget revenue for 2025 was also developed based on the forecast of key macroeconomic indicators and the planned changes in tax and customs policy:

application of the forecast of changes in prices on the world market for certain types of strategically important goods with the principle of "prudence";

The forecast of socio-economic development of the country for 2025, ensuring GDP growth of 6 percent with an inflation rate of 7 percent;

The planned changes in tax and customs policy and measures to improve tax and customs administration.

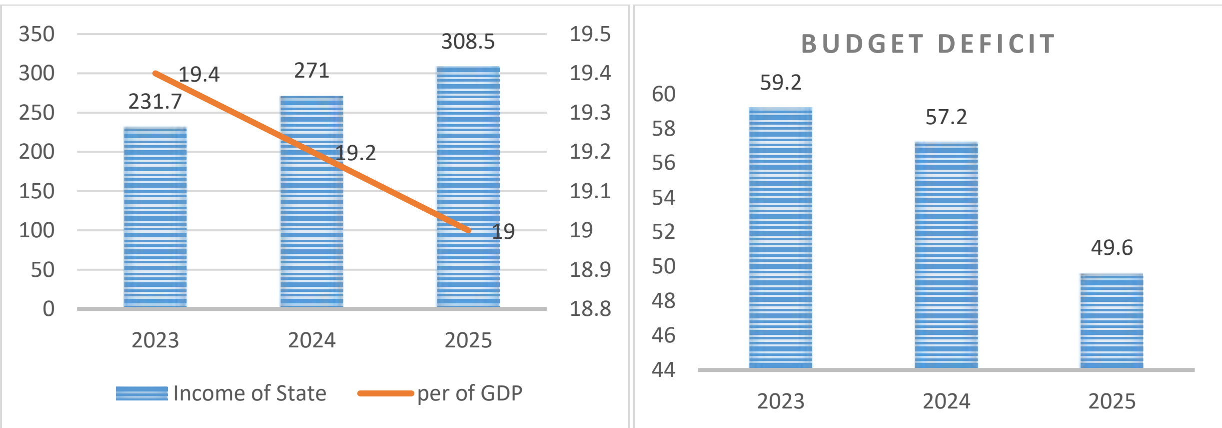

Figure 2. Dynamics of tax burden (share of GDP) and state budget revenues[1] in 2021-2024[2].

The main goals of the republic's fiscal policy are to eliminate the fundamental problems of the state through the manipulation of taxes and public spending. Also, if it is determined to increase tax revenues by expanding the tax base by reducing tax rates, then we can see that in 2023-2025 the amount of tax revenues decreased from 19.4 percent to 19 percent of GDP. At the same time, tax revenues are projected to increase from 231.7 trillion soums in 2023 to 308.5 trillion soums in 2025, showing a growing trend. If the budget deficit for the consolidated budget for 2023 amounted to 59.2 trillion soums, or

[1] Budget for Citizens Project 2025. https://www.imv.uz/newsletter/fuqarolar-uchun-budjet-nashrlari.
[2] Budget for Citizens Project 2025. https://www.imv.uz/newsletter/fuqarolar-uchun-budjet-nashrlari

5.4 percent of GDP, then in 2024 this figure will be 57.2 trillion soums, or 4.5 percent of GDP. At the same time, if it amounted to 49.6 trillion soums in 2025, it is projected that it will not exceed 3% of GDP in order to ensure macroeconomic stability and that this figure will be maintained for future years.

Although the increase in autonomous spending in terms of macroeconomic nature is expected to lead to a quantitative increase in GDP, it is necessary to have regulatory norms for these autonomous spending. Planning the state budget with a deficit, in turn, requires the elimination of sources of financing the deficit. Also, the state tries to evaluate the results of its economic activity when increasing debt. Economic growth trends can reduce the share of debt and reflect positive results in the country's solvency. An increase in the amount of debt can have a positive effect on the cyclicality of the economy, serve to increase income growth and debt servicing capabilities through the expansion of the tax base and an increase in tax revenues through development. Of course, debt can arise as a result of positive management.

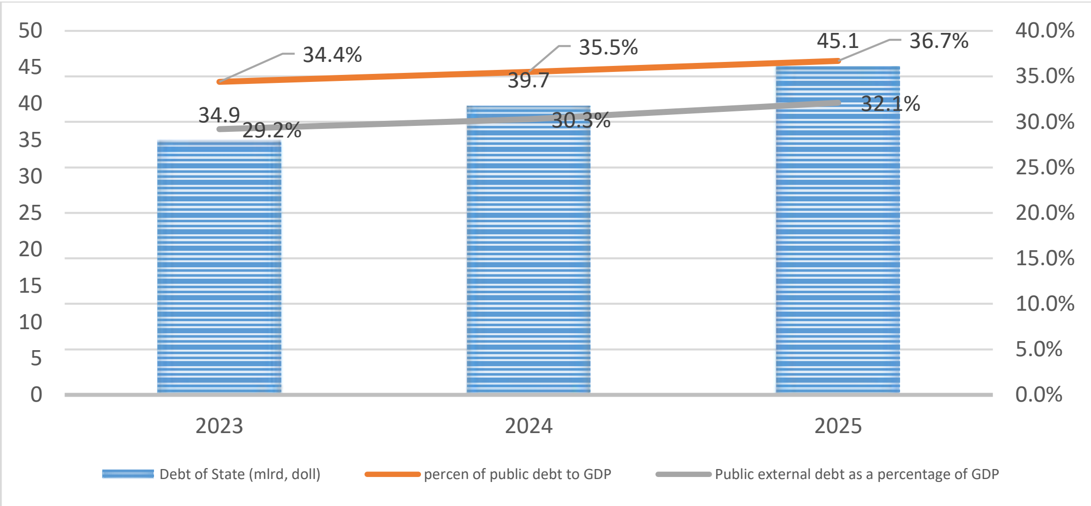

Figure 3. Dynamics of public debt and its structural changes[3].

To finance the deficit, the state will be forced to raise debt. Taking into account the positive and negative economic consequences of raising debt, the government must develop clear strategies for managing this debt. The regulatory legal acts stipulate that the limit of public debt to GDP should not exceed 60 percent. At the same time, there is a system of setting annual limits. In the implementation of the state budget for 2025, the limit should not exceed $ 5.5 billion, and $ 3 billion will be spent on the state budget, while the rest is planned to be directed to financing centralized investment projects. The share of debt in GDP in the current year is projected to be 36.7 percent or $ 45.1 billion.

The main goals are to maximize tax revenues and ensure sustainable economic growth by reducing tax rates to the optimal point. As a result, the country's debt service level is maintained at a stable level.

Conclusion.

In general, the results of fiscal policy in ensuring a stable economic situation of the state serve to ensure sustainable results in the long term. At the same time, it is advisable to determine clear directions. That is, it is advisable to keep the budget deficit no more than 3 percent of GDP, to constantly analyze macro-fiscal risks and determine specific measures to manage them, to set strategic goals for managing and regulating public debt.

It is also advisable to capitalize, restructure or suspend the activities of firms that are unable to operate, and to increase the transparency of public debt, if necessary.

It is advisable to eliminate imbalances in the labor market, prevent the expansion of the position of certain entities in the domestic market as a result of the granted tax preferences, support new opportunities for economic growth: increase investments in digitalization and prevent the decline of human capital potential in order to increase labor productivity and prevent the lag in digitalization.

It is considered a requirement of the times to systematically analyze the results of the measures implemented in accordance with the macroeconomic analysis of fiscal policy, and to make certain changes for subsequent periods.

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