

## **THE ROLE OF A MEDIUM-TERM BUDGETARY FRAMEWORK TO IMPROVE EFFICIENCY OF THE STATE BUDGET MANAGEMENT**

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Transition to medium-term budget planning is important to support macroeconomic and fiscal sustainability. If “planning” is for a year, issues of solving current issues may become more important than strategic goals. The availability of three-year targets in the State budget of Uzbekistan will help to achieve future goals. One of the main goals of this reform is to improve efficiency of State budget management.

**Keywords:** financial planning, fiscal policy, medium-term budget system, annual budgeting, financial system, public finance.

Переход к среднесрочному бюджетному планированию необходим для поддержки макроэкономической и фискальной устойчивости. Если «планирование» составляет на один год, вопросы решения текущих проблем могут стать более важными, чем стратегические цели. Наличие трехлетних целей в государственном бюджете поможет достичь будущих целей. Одной из основных целей этих реформ является повышение эффективности государственного бюджетирования.

**Ключевые слова:** финансовое планирование, фискальная политика, среднесрочная бюджетная система, годовое бюджетирование, финансовая система, государственные финансы.

### **Introduction**

Public budget is one of the important instruments of overall fiscal management of a country. It is a financial plan of mobilizing and allocating financial resources for achieving fiscal targets of an economy. It is also regarded as a financial statement of estimated receipts and expenditure for a period. It is also seen as a financial reflection of government’s plan – a statement of what a government wants to do within a period of time. In other sense, it is a financial mirror of public policies and also is used as a powerful instrument for managing economic resources of the country. Government policies are financed by the public budget, which is formed by each government through the tax system, social contributions and other levers of control the public resources to the government budget. The role and importance of public finance in the economic development of a country are very complex and have a major impact on the sustainability of the tax system and its components. For public finances to achieve their purpose, each state shall outline the fiscal strategy by which to achieve specific objectives according to national development needs. One of the major challenges that the adoption of a fiscal strategy encounter is predictability and consistency in the implementation of fiscal policy. This is particularly important in ensuring an optimal

climate for economic development of a country, designed to provide potential investors placing funds safety.

One of the essential elements that fiscal policy provides the preparation of the medium term budgetary, which must usually cover a time horizon of 3-4 years, to ensure budget consistency. Given this goal, the governments have adopted in preparing a medium-term budgetary framework - MTBF. When the planning horizon is one year, addressing current challenges may be more important than achieving strategic goals. The presence of three-year guidelines helps to work for the future. Medium-term budget targets would allow seeing the impact of fiscal policy implemented today and the standard of living of the population in a few years.

### **Literature review**

According to Barrios.S and Schaechter.A the medium-term budgetary framework (MTBF) appeared in public finance practice in different countries in order to strengthen fiscal discipline, consistency, accountability and increase transparency of the budget process. In general, the MTBF has been introduced in all countries with budget deficits, public debt levels, respectively, high or go through periods of crisis. Medium-term budget planning is also important for business, as it will reduce uncertainty and risks. The focus of budget expenditures is always a kind of "compass" for business people. The volume of public procurement will be greater in those industries in which large budget allocations are directed [1].

Foreign investment companies and international rating agencies that assess the risk level of capital investment are also interested in reliable information about the medium-term macroeconomic forecasts of the country. The availability of an open and predictable fiscal policy, as well as the main budget indicators for the medium term, contributes to the improvement of the investment environment. Numerous advantages like the accountability, consistency, strengthen the fiscal discipline and increase in the transparency of the fiscal system can be achieved through the implementation of medium-term budgetary framework (MTBF). These are the different budgetary processes that are implemented in different countries of the world to enhance the fiscal framework. This medium-term budgetary framework (MTBF) will be introduces all over the world in the period of crises. A lot of fiscal crises like public debt level or budget deficits can be resolved through the implementation of medium-term budgetary framework [2].

In another seminal work by Pradhan (2013)[3] who explains the medium term budgeting system in the context of Nepal. He called this system as *sine qua none* for the development of the country. In this study he explains the factors that support MTBF in the country, however, he analyses the factors before implementation, rather, after the implementation. In addition, the researcher agrees that implementations have many challenges for the country.

From point of C.Țița., A. Oțetea and I.Banu's view, the major component of fiscal policy is the medium-term budget framework. But, medium-term budget framework is not the new concept. It is adopted in many countries. Nowadays,

Member of European Union has been implementing this medium-term budget framework. In the same context Sweden has adopted the new medium term budget framework in 1997. The reason to implement this medium term budget framework is the economic, financial and fiscal crises in the nation. It will spread all over the nation in the early of 90's. Furthermore Netherlands has adopted the multiannual budgetary system in 1994. It will also introduces in other countries like in Finland in 1995 it is introduced to overcome the financial and fiscal crises. The rudimentary goal of this system is to develop the standardized financial rules and policies to bring the reforms in the fiscal development policy in the fiscal stability to minimize the economic recession [4].

The first step of medium-term budgetary framework is taken in the European Union by the United Kingdom in 1998. Because they have adopted two fiscal rules. First is called sustainability investment rule and the second is called the golden rule. These are the elementary rules and play the back bone role of public expenditure. These public expenditures will planned to sustain the fiscal policy for three years. Spanish has been adopted this model of medium-term budgetary framework in 2001 to take in practice from the adoption of fiscal model from English. The basic aim for the adoption of this model from English is to develop a balance in budget and it will also minimize the deficits from the budget [5]

### **Analysis and results**

Medium-term budgetary frameworks has been divided in to two main categories. This categorization is based on the continuity in the budget in the different countries all over the world. First main category of medium-term budgetary frameworks is the flexible medium-term budgetary frameworks. This framework will refer that's the overall objectives can be of the country can be adjusted on the development of economies or the fiscal policies of the country. So, it is the flexible and will change as the fiscal policy will change. While the second category of medium-term budgetary framework is the fixed medium-term budgetary framework. It refer as constant or remain the unchanged until all the time horizon. It will only change when the major change is occur it may the hyper economic recession or the change in government. Otherwise it remains the constant all over the time. [6]

According to research, some of the main characteristics of a fully functioning MTBF are:

- Policy proposals are considered in a medium to long-term context
- Policy decisions reflect what is affordable and implementable over the medium to longer term
- There are forward estimates of the costs of existing policies, programmes and activities over the medium term
- There is a clear and reliable statement of fiscal policy objectives or targets, the fiscal deficit and debt levels based on medium term projections (or the IMF's medium term fiscal framework)
- Policy and funding are more predictable over the medium term
- Policy priorities drive funding, not the other way round

- There is a clear relationship between forward estimates of expenditure and the annual budget
- There are transparent rules for any reallocation of resources (both during budget formulation and execution)
- Mechanisms exist to minimise the impact of adverse shocks (and responses to them) on service
- delivery and spending priorities over the medium term
- The process is results focused

The Pildat (2010) has eloquently described some of the main differences in traditional budgeting and MTBF based budgeting, for details see Table 1 below.

**Table 1**

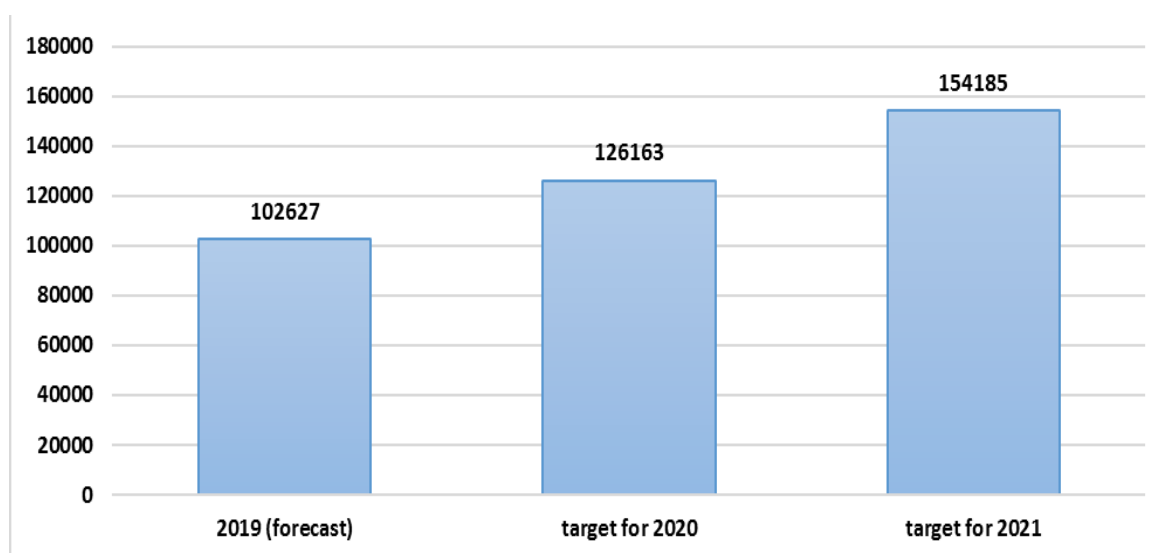
**Comparison of Traditional and MTBF-based Budgeting [7]**

No	Annual Budgeting	MTBF-based Budgeting
1.	<p><b>Focus on Incremental Budgeting</b>  <i>The budget is incremented from the previous year's budget/expenditure</i></p>	<p><b>Focus on Actual Cost and Value for Money</b>  <i>Initially, existing costs are assigned across the outputs to which they contribute. Once outputs have been costed, a baseline can be established.</i>  <i>Over time, preparation of the budget focuses on calculating the budget required to achieve defined levels of output/service delivery and on achieving value for money.</i></p>
2.	<p><b>Input Based Budget</b>  <i>The budget primarily focuses on how many inputs (e.g. pay &amp; allowances, inventory, fixed assets, etc.) are required. Inputs are amounts expended / consumed to achieve an output.</i></p>	<p><b>Output Based Budget</b>  <i>The core of the MTBF is the introduction of output-based budgeting. The MTBF budget focuses on how many outputs and outcomes can be achieved with the resources available.</i>  <i>Outputs are quantifiable / measurable results while outcomes are changes that take place as a result of outputs.</i>  <i>Example of Output: number of students enrolled</i>  <i>Example of Outcome: increase in literacy rate</i></p>
3.	<p><b>No Linkages to Policy</b>  <i>There is no direct mechanism for linking policies of ministries and organizations to annual budgetary allocations</i></p>	<p><b>Linkages to Policy</b>  <i>The MTBF requires ministries and organizations to identify their policy objectives and outputs and to link these to budgetary allocations</i></p>
4.	<p><b>Lack of Predictability of Resources</b>  <i>The fiscal resource availability is not tied up directly with the annual budgeting process</i></p>	<p><b>Fiscal Framework</b>  <i>The fiscal framework is regarded as the starting point of the MTBF processes. The fiscal framework details the total revenue, expenditure, debt, etc. of the Government. It helps in providing resources-based ceiling to sectors and ministries</i></p>
5.	<p><b>Budgeting for ONE budget year</b>  <i>Annual budget processes focuses on the upcoming budget year</i></p>	<p><b>Budgeting for THREE years</b>  <i>Budget for ONE budget year plus the Forecast for additional TWO budget years. In total the MTBF looks at three years of estimates</i></p>

Source: Pildat (2010)

Shavkat Mirziyoyev, the Republic of Uzbekistan, addressed to the Parliament set specific objectives for ensuring transparency of budget revenues and expenditures, as well as transition to medium term budgeting in public finance management on December 22, 2017 [8]. In order to implement this objective, the medium-term budget has been introduced in the Republic of Uzbekistan from January 1, 2019,. The mid-term budget prognostication of Uzbekistan aims to begin the budget cycle with consideration of parameters of perspective (mid-term) and financial planning, approved in previous budget cycle, for concerning fiscal year, analysis of changes introduced into the basic budget criteria of the planned year and development of budget projects for the following 3 years of the predicated period. It includes the main external and internal factors influencing fiscal indicators, fiscal policy strategy for 2019-2021. The budget policy for 2019 is aimed at implementing a well thought out fiscal policy and ensuring the stability of the country's financial system.

According to the State Budget parameters of the main macroeconomic indicators of the Republic of Uzbekistan for 2019, 2020 and 2021, the State Budget revenues will amount to 102.62 trillion sums in 2019 and for 2020 and 2021 years the State Budget revenues are planned 126.16 and 154. 185 trillion UZS respectively.

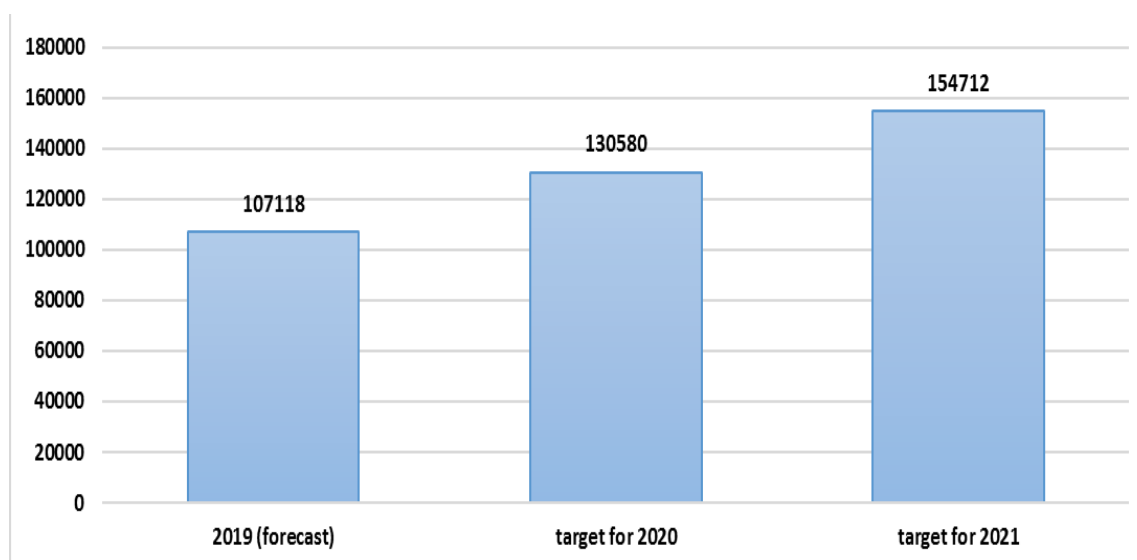


**Picture 1. The State Budget revenues of Uzbekistan.**

*Source: Forecast of main macroeconomic indicators and parameters of the State budget of the Republic of Uzbekistan for 2019 and budget targets for 2020-2021.[9]*

In 2019, the expenditures of the State Budget will amount to 107.1 trillion UZS. It is 1.4 times more than in the previous year, with expenditures of the State budget primarily directed to social spheres. In particular, social spending is 57.8 trillion UZS or 54% of the total expenditures. At the same time, these expenses will grow by 34.4% compared to the previous year.





**Picture 2. The State Budget expenditures of Uzbekistan.**

*Source: Forecast of main macroeconomic indicators and parameters of the State budget of the Republic of Uzbekistan for 2019 and budget targets for 2020-2021.[10]*

It is primarily necessary to predicate the main budget parameters for mid-term and long-term perspectives under the single fiscal and monetary policies, reality and reliability of economic prognoses and prerequisites for budget planning and observation of criteria of stability and reality of budgets and acceptability of tax burden in developing the mid-term and long-term budget policy for the purpose of ensuring the long-term stability of budgets. Besides, the mid-term budget prognostication aims to analyze systematically and manage the risks in tax and budget spheres and to evaluate mid-term and long-term consequences of taking responsibility for new expenditure liabilities, taking into consideration the stability and predictability.

### **Conclusions**

To establish a medium-term budgetary by any country into the economy will take some challenges:

First challenge will face in the development of medium-term budget framework, it will include all the macroeconomic models used in the budgetary process to use as the indicators to forecast the economic and fiscal development models.

Second challenge of medium-term budget framework is to develop different fiscal strategies to enhance the effectiveness and also ensure the predictability and transparency of the fiscal system. This system will also predict the public spending, public debt, budget deficit and relevant revenues collected from taxes and other ways of income generation.

Medium-term budget framework will also enhance the fiscal governance quality. It will also develop the measurement of logistic and institutional measure of fiscal policies through different fiscal rules and laws. Fiscal governance become more prioritized and it will be more characterized in the legislative measures at institutional as well as legislative level. It is consists of different laws on the developing the long

term fiscal strategies to shift from the multi-annually budgetary programs. This strategies will implement in medium-term budget framework. It will also introduces new fiscal laws which will be followed strictly. It will also ensure the effectiveness and efficiency of medium-term budget framework laws in the nations to encourage the foreign investors.

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