



REPUBLIC OF UZBEKISTAN

FISCAL TRANSPARENCY EVALUATION UPDATE

May 2019

This Fiscal Transparency Evaluation Update on the Republic of Uzbekistan was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in April 2019.

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Republic of Uzbekistan

Fiscal Transparency Evaluation Update

Technical Report | April 2019



I N T E R N A T I O N A L M O N E T A R Y F U N D

Republic of Uzbekistan
Fiscal Transparency Evaluation Update



April 2019

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FISCAL TRANSPARENCY EVALUATION UPDATE

A. Summary of Progress in Fiscal Transparency

1. The IMF conducted a fiscal transparency evaluation (FTE) for Uzbekistan in June 2018. The FTE found that Uzbekistan met at least the basic standard of practice in 16 of the 36 principles defined in the IMF Fiscal Transparency Code. This report provides a summary of progress made since that evaluation was conducted and is based on practices in place at the time of a Fiscal Affairs Department visit during March 25 to April 5, 2019.

2. Since June, Uzbekistan has taken steps to improve fiscal transparency. Key advances made in the 2019 budget message include presentation of more detailed information on how public funds are allocated across major spending areas and a statement of medium-term policy intentions. Medium-term macroeconomic and fiscal projections were also included for the first time, along with a discussion of fiscal risks, to provide a picture of how public finances may evolve over time. In addition, timely publication of the Citizen's Budget ensures the public has an accessible summary of fiscal prospects and policy, which will help facilitate greater public engagement in the budget process. Improvements to the 2019 budget documentation, if sustained, will help underpin a more strategic and medium-term orientated approach to fiscal policy making.

3. With these actions, Uzbekistan has improved its fiscal transparency practices against eight of the Code's standards since the June evaluation. Most improvements were accomplished in the areas of fiscal forecasts and budgeting, and fiscal risk disclosure. In seven principles previously assessed as not being met, six now meet the basic level of practice, with a further one meeting the good level of practice. In addition, establishment of a dedicated division for compiling government finance statistics (GFS) improved the practice for statistical integrity from the basic to good level. As a result of these improvements, Uzbekistan now meets at least the basic standard of practice in 23 of the Code's principles. The remainder of this document provides a detailed explanation on those practices where the assessment has changed from the June 2018 evaluation.

4. Further enhancements to fiscal transparency practices are planned or underway. In August 2018 a Presidential Decree on ensuring budget openness and public participation in the budget was issued. A road map has also been developed to expand the coverage and quality of fiscal reports and better align these with international standards, further enhance fiscal risk disclosure, and ensure greater parliamentary scrutiny of the budget. Work has also commenced to identify all off-budget fiscal activities, and, the government has committed to including these in future budget and GFS reports. Efforts are also underway to expand the coverage of GFS reports, so that they reflect all general government fiscal transactions, including those of non-market state-owned enterprises (SOEs).

Table 1. Uzbekistan: Assessment Against the Fiscal Transparency Code as at March 2019

I. Fiscal Reporting	II. Fiscal Forecasting & Budgeting	III. Fiscal Risk Analysis & Management
Coverage of Institutions	Budget Unity	Macroeconomic Risks*
Coverage of Stocks	Macroeconomic Forecasts	Specific Fiscal Risks*
Coverage of Flows	Medium-term Budget Framework*	Long-term Fiscal Sustainability
Coverage of Tax Expenditures	Investment Projects	Budgetary Contingencies
Frequency of In-Year Reporting	Fiscal Legislation	Asset and Liability Management
Timeliness of Annual Accounts	Timeliness of Budget Documentation	Guarantees
Classification	Fiscal Policy Objectives*	Public-Private Partnerships
Internal Consistency	Performance Information*	Financial Sector*
Historical Revisions	Public Participation*	Natural Resources
Statistical Integrity*	Independent Evaluation	Environmental Risks
External Audit	Supplementary Budget	Subnational Governments
Comparability of Fiscal Data	Forecast Reconciliation	Public Corporations

Legend

 Basic Standard Not Met	 Good Level of Practice
 Basic Level of Practice	 Advanced Level of Practice

* Denotes a change in the assessment since the June 2018 FTE.

Table 2. Uzbekistan: Assessment Against the Fiscal Transparency Code as at June 2018

I. Fiscal Reporting	II. Fiscal Forecasting & Budgeting	III. Fiscal Risk Analysis & Management
Coverage of Institutions	Budget Unity	Macroeconomic Risks
Coverage of Stocks	Macroeconomic Forecasts	Specific Fiscal Risks
Coverage of Flows	Medium-term Budget Framework	Long-term Fiscal Sustainability
Coverage of Tax Expenditures	Investment Projects	Budgetary Contingencies
Frequency of In-Year Reporting	Fiscal Legislation	Asset and Liability Management
Timeliness of Annual Accounts	Timeliness of Budget Documentation	Guarantees
Classification	Fiscal Policy Objectives	Public-Private Partnerships
Internal Consistency	Performance Information	Financial Sector
Historical Revisions	Public Participation	Natural Resources
Statistical Integrity	Independent Evaluation	Environmental Risks
External Audit	Supplementary Budget	Subnational Governments
Comparability of Fiscal Data	Forecast Reconciliation	Public Corporations

Table 3. Uzbekistan: Changes in Fiscal Transparency Practices Since June 2018

	June 2018	Change in Practice	March 2019
1.4.1	Statistical Integrity	A dedicated GFS and Transparency Division was established in the Ministry of Finance, with responsibility for compiling GFS.	Good
2.1.3	Medium-Term Budget Framework	Three-year projections for the key fiscal aggregates were included in the 2019 budget.	Basic
2.3.1	Fiscal Policy Objectives	The 2019 budget included a fiscal strategy statement and numerical fiscal objectives for state debt and the consolidated budget deficit of the state budget and state targeted funds.	Good
2.3.2	Performance Information	The 2019 budget included information on the inputs acquired under major policy areas along with output objectives for some policy areas.	Basic
2.3.3	Public Participation	A Citizen's Budget was published alongside the 2019 budget, providing an overview of economic and fiscal prospects and the implications of budget policies for citizens.	Basic
3.1.1	Macroeconomic Risks	The 2019 budget included analysis of the sensitivity of fiscal forecasts to key macroeconomic assumptions.	Basic
3.1.2	Specific Fiscal Risks	A statement of specific fiscal risks was included in the 2019 budget.	Basic
3.2.5	Financial Sector	Explicit financial sector exposures associated with the deposit insurance scheme were disclosed in the 2019 budget.	Basic

B. Key Changes Pillar I: Fiscal Reporting

1.4.1. Statistical Integrity (Basic to Good)

5. GFS are compiled and disseminate on a GFSM 2014 basis by a dedicated division in the Ministry of Finance. In October 2018 a GFS and Fiscal Transparency Division was established in the Main State Budget Department. The establishment of this division ensures delineation between those compiling GFS statistics and the producers of source data, which helps underpin methodological integrity. The division is responsible for compiling GFS statistics in compliance with GFSM 2014 and collecting the necessary source information from the Treasury, budget organizations, state trust funds, extra-budgetary funds, and unitary enterprises. While the GFS reports are broadly in line with GFSM classification, there are some deviations. For example, classified expenditures (such as those related to national security) are all reported as other expenditures in the economic classification.

C. Key Changes Pillar II: Fiscal Forecasting and Budgeting

2.1.3. Medium-term Budget Framework (Not Met to Basic)

6. The 2019 budget message included medium-term macroeconomic and fiscal projections for the budget and two forward years, along with discussion of past outcomes.

The budget presented three-year projections for revenues, expenditures and budget balance for the state budget, state targeted funds, and consolidated balance of the state budget and state targeted funds, as well as for state debt. This is the first time medium-term fiscal projections have been published by the government. Breakdowns of revenues by tax category and expenditures by a broad economic category were also included for the first time, though the economic categories are not fully aligned with GFSM 2014 and are only presented for the current and budget years. The introduction of medium-term fiscal projections improves the assessment under this principle from not met to the basic level of practice. Extending the detailed breakdowns of revenues and expenditures to the two forward years would see Uzbekistan meet the good level of practice, while including medium-term expenditure projections by ministry would see Uzbekistan meet the advanced level of practice under the Code.

2.3.1 Fiscal Policy Objectives (Not Met to Good)

7. The Government introduced numerical fiscal objectives for the budget deficit and debt in the 2019 budget message. The government set a limit on state debt of 50 percent of GDP, with measures to be implemented to ensure sustainability should state debt exceed 40 percent of GDP. In addition, the government set, as an objective, a limit on the consolidated deficit of the state budget and state targeted funds of 2 percent of GDP.¹ The deficit and debt limits are not legally binding. The medium-term projections outlined in the budget are consistent with the fiscal objectives. The introduction of numerical fiscal objectives improves the rating under this principle from not met to the good level of practice. In future budgets, it will be important that the government report on its performance in meeting its fiscal objectives.

8. The numerical objectives are part of a broader fiscal strategy statement presented in the budget message. The fiscal strategy statement also details the government's main fiscal policy objectives, which include ensuring sustainable public finances and efficient use of budget funds; raising living standards; and priorities for several areas of infrastructure development. It also provides information on the main directions for tax and budget policy over the medium-term.

¹ The consolidated budget balance reported in the 2019 budget message by the authorities includes the state budget balance and balance of the state targeted funds. It differs from the consolidated budget balance reported by the IMF in the Article IV report, which approximates GFS net lending/borrowing (fiscal balance) by adjusting the official measure to add off-budget transactions related to externally financed expenditures and 'traditional' revenues and expenditures of the Fund for Reconstruction and Development and to subtract policy lending and other financing transactions. In addition, the IMF present a second measure of the 'overall fiscal balance' which is the IMF's measure of the consolidated budget balance plus 'policy lending' or net transactions in financial assets for policy purposes.

2.3.2. Performance Information (Not Met to Basic)

9. The 2019 budget documentation included information on inputs and some outputs for major policy areas. The 2019 budget and the Citizen’s Budget set out the key objectives and spending activities under major spending areas, an innovation compared to previous years. Information on inputs by major spending areas are reported (e.g., for education information such as the number of schools funded, teachers employed, and the cost of their salaries is presented). Information on the outputs to be delivered is also presented for several major spending areas (e.g., pre-school coverage and access to certain health services). These innovations improve the rating for performance information from not met to the basic level of practice. To meet the good level of practice, subsequent budgets should report on performance against achievement of these output objectives.

2.3.3. Public Participation (Not Met to Basic)

10. The government has published a Citizen’s Budget, which provides an accessible summary of fiscal policy and prospects. A Citizen’s Budget was published for the first time in July 2018, summarizing the approved 2018 budget. In 2019, the Citizen’s Budget was released alongside the 2019 budget. It provides an overview of the macroeconomic and fiscal outlook, the structure of revenues and expenditures, and a summary of major areas of fiscal policy. The 2019 Citizen’s Budget also provides a summary of changes in tax policy and details on spending and outputs by functional category, which is not, however, yet fully consistent with international standards such as the UN’s Classification of the Functions of Government (COFOG). Publication of the Citizen’s Budget improves the assessment under this principle to the basic level of practice. The government has committed to developing formal mechanisms for citizen engagement in the budget process, which once implemented, would see Uzbekistan meet the good level of practice under the Code.

D. Key Changes Pillar III: Fiscal Risk Analysis and Management

3.1.1. Macroeconomic Risks (Not Met to Basic)

11. The 2019 budget message included analysis of the sensitivity of fiscal forecasts to major macroeconomic assumptions. The budget quantifies the impact on revenues and expenditures of deviations in three main economic variables: a decline in prices for key commodity exports; a devaluation in the exchange rate, also taking account of the impact of the devaluation on inflation; and, an acceleration in domestic inflation. As a result, the assessment of this principle has improved from not met to the basic level of practice.

3.1.2. Specific Fiscal Risks (Not Met to Basic)

12. A summary fiscal risk statement was included in the 2019 budget message. In addition to macroeconomic risks, the statement includes discussion and quantification of risks associated with certain tax policy changes, government guarantees on borrowing of certain SOEs, and financial sector exposures. However, the statement is not yet complete. For example, there is

no discussion or assessment of fiscal risks that can arise from the SOE sector more generally. Further, the maximum exposure associated with loan guarantees is reported only for domestic guarantees, not for guarantees on external loans which represent the bulk of guaranteed debt. External debt guarantees are instead reported separately as part of the external debt statistic reports. Notwithstanding these gaps, the inclusion of a fiscal risk statement in the budget is an important step and has improved the assessment of this principle from not met to the basic level of practice. Further expanding the fiscal risk statement to cover all material fiscal risks and quantifying these, would see Uzbekistan meet the good level of practice under the Code.

3.2.5. Financial Sector Risks (Not Met to Basic)

13. The government disclosed its explicit support to the financial sector as part of the fiscal risk statement. Key financial soundness indicators for the banking sector, details of the bank deposit insurance scheme, and quantification of total deposits covered under the scheme were reported. The statement also discloses that, in previous years, the government provided periodic capital injections to state-owned banks. Although the amounts are not reported in the fiscal risk statement, information about individual capital injections are available in the separate Presidential Resolutions that authorize them. Inclusion of financial sector risk exposures in the fiscal risk statement improves the assessment of this principle to the basic level of practice. Conducting regular assessment of financial sector stability, as is planned by the Central Bank, would further improve this rating to the good level of practice as defined under the Code.

Fiscal Affairs Department

International Monetary Fund

700 19th Street NW

Washington, DC 20431

USA

<http://www.imf.org/capacitydevelopment>