



# REPUBLIC OF UZBEKISTAN

## STRENGTHENING FISCAL TRANSPARENCY

May 2019

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## Republic of Uzbekistan

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# Strengthening Fiscal Transparency

Amanda Sayegh, Matt Crooke, Viera Karolova, and John Zohrab

Technical Report | December 2018



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**

## **Strengthening Fiscal Transparency**

Amanda Sayegh, Matt Crooke, Viera Karolova, and John Zohrab



**December 2018**



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## GLOSSARY

ADB	Asia Development Bank
CBU	Central Bank of the Republic of Uzbekistan
COA	Chart of Accounts
COM	Cabinet of Ministers
CRU	Financial Inspection Service of the Ministry of Finance
EBFs	Extra-budgetary Funds
UFRD	Uzbekistan Fund for Reconstruction and Development
FAD	Fiscal Affairs Department
FTE	Fiscal Transparency Evaluation
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
JSC	Joint Stock Company
MoF	Ministry of Finance
MTBF	Medium-term Budget Framework
OBAs	Off-budget Accounts
SOE	State-owned Enterprise
STF	State Targeted Funds
SUE	State Unitary Enterprise
TSA	Treasury Single Account

## PREFACE

An International Monetary Fund (IMF) team visited Tashkent from October 22 to November 2, 2018 to follow-up on the recommendations of the Fiscal Transparency Evaluation conducted in June 2018. The mission comprised Amanda Sayegh (head) of the IMF's Fiscal Affairs Department (FAD), Viera Karolova of the IMF's Statistics Department, John Zohrab (FAD regional advisor) and Matt Crooke (FAD expert).

The mission met with: First Deputy Minister of Finance Mr. Akhadbek Khaydarov; Deputy Minister of Finance, Mr. Dilshod Sultanov; First Deputy Head of the Main State Budget Department, Mr. Jamshid Abruev; First Deputy Head of the Treasury, Mr Dilshod Pulatov; Deputy Head of the Main State Budget Department, Mr. Ismonjon Mamadjanov; Head of the Consolidated Budget and Fiscal Policy Division, Mr. Botir Kholmuradov; Head of the Government Finance Statistics Division, Mr. Sherzod Mukhamedov; Deputy Head of the Government Finance Statistics Division, Ms. Aleksandra Khvan, and other officials from the Ministry of Finance.

The mission also met with: First Deputy Minister of Economy, Mr. Mubin Mirzaev and senior officials from the Ministry of Economy; Mr. Jahongir Negmatov, Director of the Institute of Fiscal Studies, and staff of the Institute; and senior officials from the Central Bank of the Republic of Uzbekistan (CBU).

The IMF team would like to thank the authorities and other officials for their excellent collaboration during the visit and in particular Mr. Sanjar Sultanov for his support in facilitating official meetings. The team would also like to thank Ms. Galina Kostina from the IMF's local office for her support prior to, and during the visit. Finally, the team would like to express its appreciation to Mr. Sherzod Adbinabiev, Mr. Andrei Lagoiski, Ms. Margarita Larshina and Mr. Kirill Eltsov for the excellent interpretation and translation services provided during the visit.



## EXECUTIVE SUMMARY

**Uzbekistan is embarking on a comprehensive reform program to strengthen public financial management and fiscal transparency.** Wide-ranging reforms to improve the coverage, reliability, quality and accessibility of fiscal reports are being developed. To support the government's efforts, a Fiscal Transparency Evaluation (FTE) was conducted in June 2018 to identify gaps and develop an action plan to address them. The evaluation found that Uzbekistan met the basic level of practice, or better, on 16 of 36 principles of the IMF's Fiscal Transparency Code.

**The FTE identified several areas where improvements were needed.** Key areas included:

- Expanding the institutional coverage of fiscal and statistical reports to include all extra-budgetary funds (EBFs), off-budget accounts (OBAs) of budgetary organizations, and the activities of other institutional units that should be classified as part of the general government sector in accordance with the Government Financial Statistics Manual (GFSM) 2014 standards;
- Improving the quality of fiscal reports by bringing economic and functional classifications more in line with international standards;
- Improving budget comprehensiveness, by bringing OBAs of budgetary organizations on budget and ensuring all central government activities are presented and reported in line with international standards; and
- Improving the disclosure and management of risks to the public finances.

**The government is taking steps to address these gaps.** A Presidential Decree, approved in August 2018, sets out measures to enhance budget openness and transparency, increase the engagement of citizens in the budget process, and strengthen parliamentary and public scrutiny of the budget.<sup>1</sup> Further, a draft Cabinet of Ministers (COM) resolution has been prepared by the Ministry of Finance (MoF) setting out detailed actions required to improve fiscal transparency, in line with many of the FTE's recommendations. The government has also begun to address some gaps in transparency by improving disclosure in the 2019 Budget Message. Actions taken since the FTE in June 2018 are summarized in Annex I.

**This report provides further guidance to support implementation of the FTE recommendations and the government's plans to strengthen transparency.** The IMF team worked with the authorities to further strengthen the application of the GFSM standards, improve the budget classification, presentation and reporting; strengthen fiscal risk disclosure and address other fiscal transparency-related issues. The guidance and templates provided to the authorities are set out in annexes to this report.

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<sup>1</sup> Resolution of the President of the Republic of Uzbekistan No. 3917 of August 22, 2018.

### *Improving Government Finance Statistics*

**Steps have been taken to improve the coverage of GFS reports, but further work is required.** An initial assessment of around 1,800 public corporations was conducted by the IMF team, based on available information, and suggests around 100 of these units, with expenditures of around 0.25 percent of GDP, should be brought within the general government sector. Further work is required to assess the appropriate classification for an additional 185 units. To complete sector classification, an inventory of all public units should be compiled, including information on their legal form, government ownership share and relevant financial indicators. Further, the activities of those EBFs and OBAs of budgetary organizations, currently excluded from GFS reports, should be consolidated.

### *Enhancing budget transparency and fiscal risk disclosure*

**Several enhancements to the budget documentation made in the 2019 draft Budget Message presented to Parliament.** For the first time, the budget message included medium-term macroeconomic and fiscal projections, along with an assessment of the main sources of macroeconomic risks, a statement of fiscal objectives, and detailed discussion of outcomes for the current year and comparison to the original budget.

**Nevertheless, there is room to further improve transparency.** Further enhancements that can be made in the revised 2019 Budget Message or subsequent year's budgets include: presenting fiscal aggregates for the consolidated budget (state budget, EBFs, and Uzbekistan Fund for Reconstructing and Development (UFRD)); appropriately classifying policy lending in line with international standards and presenting a measure of the budget balance that also includes net transactions in financial assets for policy purposes (the 'overall budget balance'); disclosing more detailed breakdowns of fiscal information; and, expanding fiscal risk disclosure to include discussion and quantification of the main contingent liabilities. Minor amendments to the budget classification will also be required to bring budget presentation more fully in line with GFSM 2014. A key priority for subsequent years' budgets is to bring remaining off-budget transactions on budget.

### *Supporting PFM Frameworks*

Several supporting PFM reforms will be required to facilitate the government's efforts to enhance transparency and fiscal policymaking. Many of the planned reforms necessitate changes to the legislative framework. A full review of changes required to the Budget Code and other legislation should be undertaken to ensure these are made in a systematic way. Importantly, before fiscal rules are formalized in legislation, careful consideration will need to be given to their calibration, taking account of planned improvements to budget coverage and presentation. Finally, to support the planned implementation of an annual budget law and parliamentary appropriation system, the Budget Code will need to define clear rules around budgetary virements, budgetary reserves, and budgetary revisions within the course of the year.

# IMPROVING GOVERNMENT FINANCE STATISTICS

## A. Progress to Date

**1. The recently approved Presidential Resolution and draft COM resolution on fiscal transparency provide an important basis to further improve the application of the GFSM standards.** A new GFS division has been established in the MoF tasked with improving GFS and fiscal transparency. Their efforts will be focused on improving the alignment of the budget classification, presentation and reporting with GFSM 2014 standards, collecting data for public corporations, expanding the institutional coverage of GFS, compiling a general government balance sheet, and improving the integrity of fiscal reporting.

**2. Plans to establish closer inter-departmental collaboration on the preparation of statistics are welcome.** The draft COM resolution envisages close coordination of activities between the MoF, CBU, and Statistical Committee and harmonization of GFS with the System of National Accounts (SNA 2008). This will ensure higher quality GFS and other macroeconomic statistics. These arrangements could be formally set up through an inter-departmental Memorandum of Understanding and establishing a working group (or several thematic expert groups) to deal with challenging methodological issues (e.g., classification of units or treatment of specific transactions), harmonize data needs, share expertise, and ensure data sharing to minimize the reporting burden.

## B. Sectorization

**3. The FTE highlighted important gaps in the coverage of the GFS reports.** Three EBFs (the Book Fund, Children Fund, and Aral Sea Fund) and OBAs of budgetary organizations have not been included in the GFS reports. Furthermore, some of the more than 2,000 government-controlled corporations appear not to operate on a commercial basis and thus would be classified in the general government sector under GFSM 2014 standards.

**4. An initial inventory of public corporations was conducted based on available information.** Annex II provides guidance on how to classify public entities. The IMF team worked with the MoF to assess the appropriate classification of some 1,800 units, using the market/non-market test. Based on the financial information provided:

- 276 markets (bazars) were deemed to be private units and should be excluded from the public sector;
- 1,042 corporations were assessed to be market producers, and pending further review, should remain classified as public corporations;
- 100 units, with expenses of around ¼ percent of GDP (see Table 1), were assessed to be non-market producers, and on this basis would be included in the government sector; and

- 185 units, with expenses of 6 percent of GDP, were borderline cases, and further information is needed to appropriately classify these entities.

The Deposit Insurance Fund and Cumulative Pension Scheme also appear to be non-market units and should be classified within the general government sector.

**Table 1. Uzbekistan: Non-Market Public Corporations, Financial Overview, 2017**  
(Percent of GDP)

<b>Transactions</b>	
Revenue	0.16
Expense	0.24
Investment in non-financial assets	n.a.
<b>Operating balance</b>	<b>-0.08</b>
<b>Stocks</b>	
<b>Assets</b>	<b>1.35</b>
Nonfinancial	0.34
Financial	1.02
<b>Liabilities</b>	<b>1.35</b>
Liabilities other than equity	1.04
Equity Capital	0.31
<b>Net financial worth</b>	<b>0.71</b>

Source: Ministry of Economy, IMF staff estimates.

Note: Total expenditure could not be calculated due to the absence of data on net investment in non-financial assets.

**5. Further steps are required to complete a full inventory of publicly-owned corporations, and sectorization of public units.** A complete registry of public units needs to be compiled and maintained. The database compiled by the Ministry of Economy, and used for the analysis, does not yet provide for comprehensive coverage, and not all required financial information is reported. The robustness of the financial information for certain enterprises also requires verification. Further analysis is also required for certain enterprises (such as Tashkent Metro, Railways, Airways, local public utility and transport companies, and other big corporations), which are currently classified as market producers. In addition to applying the quantitative market/non-market test, consideration needs to be given to qualitative criteria, in particular the autonomy of decision of units having legal status of State Unitary Enterprises (SUEs) and government corporations.<sup>2</sup> Finally, it will be important to clarify whether the reported depreciation in company financial statements is a suitable proxy of consumption of fixed capital, which is required for conducting the market test. If not, then the sectorization above may need to be re-assessed.

**6. Those entities assessed as government units should be included in GFS reports.** The draft COM decree on fiscal transparency includes an intention to bring non-market SUEs within the treasury and accounting framework. Those entities would then be required to produce

<sup>2</sup> Where corporations pass the market test, if they lack autonomy in decision making they should be classified as government units, since in this case they are not separate institutional units but part of parent ministries.

financial reports based on budget classifications. For joint stock companies (JSCs) it will be necessary to map data from their financial reports if the government wishes to avoid imposing dual reporting requirements on them. Although the current financial reporting of state-owned enterprises (SOEs) doesn't provide the exhaustive range of detailed items defined in the GFSM 2014 manual (e.g., in some cases it is impossible to distinguish financial assets in equities from other securities), it generally satisfies the basic requirements to compile GFS. However, concerns around the quality of the data reported by SUEs and state enterprises (their financial statements are generally not audited), could hamper the reliability of GFS reporting. The IMF team worked with the MoF to complete a bridge table between the financial reports used by SOEs and GFS economic categories.<sup>3</sup> The IMF team conducted a pilot compilation of GFS tables based on actual financial reports data for one corporation. This exercise will serve as a model for the MoF's GFS division to compile GFS for all non-market enterprises.

### C. Reconciliation

**7. The FTE emphasized the importance of reconciling fiscal aggregates within and across reports.** There are large differences in fiscal aggregates between budget execution and GFS reports. In 2017, state budget expenditures in the budget execution report were around 9 percent of GDP higher, and the surplus 0.1 percent of GDP lower, than the state budget data presented in GFS. While the differences are partly explained by the different treatment of financing operations in these reports, it is important that these be reconciled, and the differences explained in published documents, to ensure data integrity, underpin confidence in the reliability of published fiscal information, and help the public understand how the main fiscal aggregates add up. The same principles apply to reconciling between fiscal aggregates within reports, such as net financing and the change in the stock of debt—the stock-flow adjustment.

**8. The IMF team designed three reconciliation templates to assist the MoF (Annex III).** These include reconciliations of: (i) the general government balance based on the budget execution and GFSM 2014; (ii) the general government balance and change in debt; and (iii) the cash budget execution and change in stocks of government deposits. The IMF team began work on reconciling these, but further work is required, particularly to better understand and value flows in foreign currency and quantify further potential differences (e.g. due to flows related to on-lending).

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<sup>3</sup> In Uzbekistan, all types of SOEs (SUEs, joint-stock companies, limited companies, and state enterprises) use a uniform nationally based financial reporting, which comprises an income statement, balance sheet, cash flow statement, and statement on capital. While the income statement doesn't provide sufficient data to compile GFS, the cash flow statement and balance sheet provide satisfactory level of details on revenue and expenditure, financial transactions, and stocks of assets and liabilities respectively.

## D. Recommendations

**Recommendation 2.1:** Compile a complete inventory of all public units (mid-2019), including information on their legal form, government ownership share, and key financial indicators required to determine their sector classification and to manage fiscal risks (see Chapter II).

**Recommendation 2.2:** Complete the sector classification, by populating missing data and obtaining the necessary information to appropriately classify borderline cases and discuss the results of the exercise with the State Statistics Committee (mid-2019).

**Recommendation 2.3:** Complete the coverage of general government sector in GFS reports by: consolidating activities of EBFs currently excluded from these reports and the OBAs of budgetary organizations (from 2019) as well as the activities of non-market units (complete by 2020).

**Recommendation 2.4:** Establish a GFS working group based on a Memorandum of Understanding between MoF, CBU, and Statistical Committee to ensure data exchange, and harmonized sectorization, and consistent macro-economic statistics (early 2019).

**Recommendation 2.5:** In cooperation with the CBU, collect missing data and complete reconciliation of cash budget execution and change in stocks of government deposits for 2017; conduct the reconciliation on a regular basis.

**Recommendation 2.6:** Complete an initial reconciliation between general government budget execution and GFS reports (end 2018); and begin annually reconciling the general government balance and changes in the stock of debt.

## ENHANCING BUDGET TRANSPARENCY

### A. Progress to Date

**9. The 2019 draft Budget Message submitted to parliament, contained several new innovations that improve transparency and support medium-term budget planning.** A draft of the 2019 Budget Message, which was submitted to Parliament, but not published, was shared for comment with the IMF team. It included, for the first time, medium-term macroeconomic and fiscal projections, along with an assessment of the main sources of macroeconomic risk and their impacts on the budget. Fiscal objectives were also specified, including deficit and debt targets. Four EBFs are to be wound down, with their activities subsumed by relevant ministries and financed directly from the state budget.<sup>4</sup> A detailed discussion of outcomes for the current financial year, and comparison to the original budget estimate was also included.

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<sup>4</sup> The four funds include: The Road Fund, Education and Health Infrastructure Fund, Clean Drinking Water Fund, and Improvement of Irrigated Lands Fund. The Pension Fund, Employment Fund, Privatization Fund, Fund for Children's Sport, Book Fund and Aral Sea Fund will continue to exist. The latter three are not reported in the budget, as they are not defined as state targeted funds under the Budget Code.

**10. Additional initiatives to improve budget transparency are flagged to be implemented in subsequent years, which will need to be appropriately sequenced.** Key amongst these include: bringing OBAs of budgetary organizations on budget; introducing a medium-term budget framework (MTBF); introducing a parliamentary appropriation system (see Chapter III sub-section C); and reviewing the classification of non-market SOEs. Given the breadth of reform plans, careful consideration needs to be given to how these are sequenced and prioritized. Of high priority for Uzbekistan, is improving the comprehensiveness, quality, and presentation of the budget and fiscal information. The introduction of an MTBF and program information should also enhance budget planning and expenditure allocation, but the framework should be well-established before advancing too expenditure ceilings at a detailed level (such as by program). Further, international experience suggests that for the MTBFs to be accompanied by increased budget discipline, their introduction needs to be aligned with improvements to the underlying budget process.

## **B. Expanding the Content of the Budget Message**

### **2019 Budget Message**

**11. The IMF team reviewed key elements of the 2019 draft Budget Message and proposed further improvements.** The following were suggested for inclusion in the revised Budget Message to be re-submitted to Parliament and published.

- **Provide a more complete presentation of general government activities.** The draft budget included medium-term fiscal aggregates (revenue, expenditure, and balance) for the state budget. In addition, the Budget Message should present consolidated medium-term projections for the state budget and EBFs (including the UFRD) combined. In subsequent years, OBAs of budgetary organizations and those publicly owned corporations brought within the general government sector should also be consolidated. This will provide the public with a more comprehensive picture of the government's fiscal plans and is consistent with the FTE recommendations.
- **Appropriately classify and report policy lending activities.** Currently, the Budget Message includes capital injections for policy purposes (transactions in loans and equity injections) in the reporting of cash expenses and revenues. In line with the FTE recommendations, it would be more transparent to separately report these investments as either transactions in financial assets or expenses (capital transfers or subsidies), in accordance with GFSM 2014 standards. Annex IV provides guidance on appropriately classifying these transactions. Where the government expects to receive a financial asset of equal value in exchange for the investment, the financial claim is recoverable, and, there is a reasonable expectation of earning a sufficient rate of return on its investment, the activities are to be classified as transactions in financial assets. These transactions should be clearly reported as such, through the inclusion of an additional item in the budget tables. Where these conditions do not hold, the activities should be classified as expenses.



- **Present the budget balance both on a GFSM basis, and on an ‘overall balance’ basis.** To ensure transparency, the main budget tables should present the budget balance in line with the GFSM 2014 concept of net lending/borrowing, as well as separately presenting an overall balance. The overall balance is defined as the budget balance minus net transactions in financial assets for policy purposes.<sup>5</sup> Both of these aggregates should be presented for the state budget, the EBFs (including UFRD), and for the consolidated state budget and EBFs (including UFRD) combined. Box 1 provides a summary of these main fiscal aggregates. Presenting both measures ensures consistency with international standards while also presenting a measure of the fiscal aggregate that reflects additional aspects for policy making and macro-fiscal stability in Uzbekistan.
- **Present more detailed breakdowns of fiscal information.** There is scope to improve the presentation of revenues to bring it more into line with GFSM 2014, and separately report on non-tax revenues and its main components. In addition, presenting information on expenditure estimates for the budget year by economic classification and administrative unit would aid transparency, enhance budget planning, and strengthen accountability over how public funds are being allocated. In due course, these might also serve as the basis for Parliamentary appropriation (see Chapter III). Detailed tables should also be presented for the EBFs and the UFRD, with breakdowns of their revenue sources, expenditures, and, where appropriate, their financing activities.
- **Include information on government financing activities.** Initially this could focus simply on the net incurrence of new borrowing, and over time be expanded to cover all changes in financing. Providing a detailed breakdown of financing components can assist in reconciling the overall balance with estimated new financing requirements, illustrate the extent to which borrowing may be required to support the main budget deficit, as opposed to net lending for policy purposes, and show the various different sources of financing (drawdown of cash balances, asset sales, new borrowing).
- **Expand the assessment of fiscal risks.** The inclusion of an assessment of macroeconomic risk and analysis of the sensitivity of fiscal aggregates to deviations in the main economic assumptions underpinning the budget is a significant advancement. The assessment should be expanded in the 2019 Budget Message and subsequent years to include discussion and analysis of other sources of fiscal risks (see sub-Section C below).
- **Enhance the explanation of changes in fiscal forecasts from their estimate in the previous year’s budget.** The discussion of 2018 revenues and expenditures primarily focuses on changes from the previous year. An explanation of deviations in revised estimates from

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<sup>5</sup> Note that the definition of overall balance proposed in this report deviates from the definition in the GFSM 2014 manual (Table 4A.1), as it also includes inflows from repayments of policy lending but doesn’t exclude inflows from privatization of non-financial assets. As emphasized in this report, non-recoverable policy lending and equity injections which will not bring sufficient rate of return should, in any case, be treated as an expense having a negative impact on the net lending/borrowing according to the GFSM 2014 (see Annex IV). Thus, when calculating the overall balance, only the recoverable part of policy lending will be added.



those presented in the 2018 Budget Message should also be provided. Further, the section should provide a comparison of the revised estimate for the budget deficit to that presented in the 2018 Budget. In subsequent years, budgets will need to explain how the medium-term projections have changed from the projections in the previous year's budget. This can be aided by presenting a table showing the previous years and current year's fiscal projections, with a discussion, and ideally quantification, of the extent to which changes are due to policy decisions of the government and other factors, such as deviations in economic developments or changes in budget classification.

- **Comparison of macroeconomic and fiscal forecasts to those of independent forecasters.** The budget should include a comparison of independent macroeconomic forecasts to the forecasts presented in the budget. Subsequent budgets should also include comparison of fiscal forecasts once the budget's coverage has been expanded.

### **Box 1. Definitions of Fiscal Aggregates**

**State budget:** According to the Budget Code, the State budget consist of central government budgetary organizations (Republican Budget) and subnational budgetary organizations (including for the Republic of Karakalpakstan, local budgets of regions and the city of Tashkent). Currently excluded, are several EBFs and OBAs of budgetary organizations. Consistent with the recommendations of the FTE and this report, the OBAs and most EBFs, should be consolidated in the State budget aggregates.

**Consolidated budget:** The Budget Code defines the consolidated budget as comprising the State budget, State Targeted Funds (six specific EBFs defined by the Budget Code), and the UFRD. This report defines the consolidated budget as comprising the activities of all general government sector units as defined under GFSM 2014. In addition to the authorities' definition, it would include those EBFs not defined as state targeted funds in the Budget Code, as well as the OBAs of budgetary organizations.

**Budget balance:** Budget balance in this report refers to the GFSM 2014 concept of net lending/borrowing (revenues less expenditures and net transactions in non-financial assets. However, the existing budget presentation also includes the extension of policy lending as expenditure and repayment of policy lending as revenues.

**Overall budget balance:** The overall budget balance defined in this report comprises the budget balance (defined by GFSM 2014 as net lending/borrowing) adjusted for net transactions in financial assets for policy purposes.<sup>1/</sup> It excludes net transactions in financial assets for liquidity purposes. Transactions in financial assets for policy purposes can take a variety of forms, including loans and equity injections. As emphasized in this report, non-recoverable policy lending and equity injections which will not bring sufficient rate of return should, in any case, be treated as an expense (see Annex iV). Thus, when calculating the overall balance, only the recoverable part of policy lending will be added.

1/ Note that the definition of overall balance proposed in this report deviates from the definition in the GFSM 2014 manual (Table 4A.1), as it also includes inflows from repayments of policy lending but doesn't exclude inflows from privatization of non-financial assets.

## **12. Several templates were developed to support the above enhancements to budget disclosure.**

- A generalized outline for the main budget document was developed as a guide for the MoF and is included at Annex V. While international guidelines define good practices for budget disclosure (see Annex VI), there is no standard structure for budget documentation, which

tends to differ to suit each country. Still, the guidance provides a useful checklist to ensure core elements are covered in line with good practice.

- Templates for the main fiscal tables were developed to help improve transparency and bring budget presentation more into line with international practice (Annex VII). Some of these tables (for example, the detailed financing and financial balance sheet presentation) are intended for inclusion in subsequent budgets, in line with the government's reform plans.
- A draft fiscal risk statement, tailored to the availability of existing information, was prepared with the MoF for possible inclusion in the revised 2019 Budget Message. This draft was expanded on, to provide a more detailed template for fiscal risk disclosure in future budgets (Annex VIII and sub-section C).

### Further measures to improve fiscal transparency

**13. While implementing the above measures would constitute a major step forward in terms of improved transparency, there remain several areas for enhancement in future years.** These include:

- Bringing remaining off-budget transactions on budget, or at a minimum, reporting their revenues, expenditures and cash balances as an annex to the budget;
- Publish medium term projections for the sub-sectors of the State Budget (that is, for the Republican and Local government sectors);
- Publishing more comprehensive information on the sources of government financing;
- Include as a chapter within the budget message, a statement on the government's fiscal objectives, including an assessment of compliance with fiscal targets, or justification for deviations in them, to guide medium-term budget planning and further development of a rules-based fiscal framework (see Chapter III sub-section B); and
- Disclosing more complete information on major public investment projects.

**14. Many of these are planned to be implemented under the draft COM resolution, although some elements of it need to be further clarified and the timing of some actions reconsidered.** Detailed comments on the COM resolution were provided to the MoF and are included at Annex IX.

### C. Fiscal Risk Disclosure

**15. Uzbekistan's public finances are exposed to several important fiscal risks.** The FTE provided an analysis of the scale and sources of these risks and recommended disclosing these in an annual summary report on fiscal risks. The main sources of fiscal risks highlighted by the FTE include: macroeconomic risks; government guarantees of borrowing of SOEs as well as other fiscal exposures emanating from the SOE sector; risks surrounding public debt that are

denominated in foreign currency; and exposures associated with the financial sector, given the large state-owned banking sector and comprehensive guarantees on bank deposits.

**16. Publication of a comprehensive statement on fiscal risks can help policymakers better understand risks to the outlook.** Identification and disclosure of fiscal risks ensures that policymakers, the public, and legislature understand the risk exposures and their potential to impact public finances. It can also support the development of mitigating measures to reduce the severity or frequency of negative shocks or increase the government's ability to withstand them. Further, disclosing fiscal risks can help underpin credibility and market confidence by signaling that the government is aware of its risk exposures and has strategies in place to manage them.

**17. As a first step to improving fiscal risk disclosure, an analysis of macroeconomic risks was included in the draft budget for 2019.** The macro-fiscal risk assessment is a good start.<sup>6</sup> It details the impact on the fiscal balance of potential deviations in key macroeconomic variables including: the exchange rate, export prices, inflation, and interest rates. The macro-fiscal analysis in the 2019 budget could be strengthened by:

- Adding a scenario for a reduction in domestic GDP growth, caused for example, by lower external demand; and
- Including a discussion on the main risks to public debt, and in subsequent fiscal risk assessments, providing quantitative analysis of how alternative macroeconomic assumptions for the exchange rate and interest rate on external borrowing impact on the value of government debt and debt servicing.

**18. A more comprehensive fiscal risk statement would also include discussion and quantification of contingent liabilities.** These are obligations that may give rise to future fiscal costs in if a future uncertain event occurs. For example, if an SOE defaults on a loan that is guaranteed by the government, the government would be obliged to meet the associated debt servicing costs. In Uzbekistan, the main explicit and implicit contingent liabilities relate to government guarantees, financial sector exposures, SOEs, and natural disasters.

**19. To support these efforts the MoF will need to have access to additional information.** The MoF has access to information on public debt, government guarantees, and loans. But, it does not have an aggregate picture of exposures related to the SOE sector. Formal arrangements will likely need to be established to ensure the MoF has access to regular and timely information on SOE performance, including for example, requiring that SOEs submit regular reports on their financial performance to the MoF. The Ministry of Economy has started to compile a database on the annual financial position of SOEs, but the coverage needs to be

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<sup>6</sup> The mission did not verify the sensitivity analysis but provided support to the structure and presentation of the macro-fiscal analysis.

expanded and data closely scrutinized and verified. Annex X provides a summary of the information the MoF will need to collect for fiscal risk disclosure.

**20. The MoF will need to collaborate closely with relevant agencies in preparation of the fiscal risk statement.** The MoF should consult with the CBU and Ministry of Economy on disclosure of financial sector risks and macroeconomic risks respectively. Furthermore, as analysis of SOE risks is developed, it may also need to consult with shareholding ministries, Ministry of Economy or individual SOEs to ensure it has access to the information it needs to analyze SOE related risks.

**21. In addition to enhancing disclosure of fiscal risks, the MoF plans to develop more robust frameworks for their monitoring and management.**<sup>7</sup> An important step in this regard is the establishment of a new Fiscal Institute under the MoF, which has amongst its responsibilities the monitoring of budget risks, and the planned creation of a new PPP Agency. It will be important that the agency conduct careful risk assessments of PPP contracts prior to their approval, to ensure that the government is not taking on excessive risk. Over the medium-term, central oversight of SOEs could also be enhanced.

#### **D. Budget Classification**

**22. Bringing budget presentation and disclosure into line with GFSM 2014 is a high priority for improving Uzbekistan's fiscal transparency.** The authorities have been using a GFSM 2001-based<sup>8</sup> budget classification since 2011, for internal budget execution and reporting, but not for budget presentation and disclosure.<sup>9</sup> The stated reason for this differentiated use of the new classification, is the familiarity members of parliament have with the existing format. While wholesale changes to the existing GFSM 2001-based budget classification are not an immediate priority, there are two sets of fiscal transparency-enhancing changes that would be worthwhile in the short term:

- Additions and clarifications to distinguish between loans and equity injections that are financing (transactions in financial assets) and those that are (in whole or in part) capital transfers (expenses) because they are unlikely to be repaid or earn a market rate of return. These additions and clarifications could be achieved in breakdowns of the capital transfer item of expenditure, and perhaps by expanding the descriptions of loans and equity injections that are transactions in financial assets as requiring realistic returns; and

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<sup>7</sup> The draft COM resolution on fiscal transparency envisages establishing a fiscal risk assessment mechanism.

<sup>8</sup> Following the issuance of updated SNA 2008 methodology, the GFSM 2001 manual has been replaced by the GFSM 2014 edition. In principle, GFSM 2001 and GFSM 2014 are consistent. The new edition provides some supplementary details and more in-depth guidance to meet the needs of users.

<sup>9</sup> However, they used this new classification for commencing disclosure of fiscal data in the *GFS Yearbook*.

- Changes to the high-level descriptions and ordering of the classification to bring it into line with the *GFSM Statement of Sources and Uses of Cash* and to identify separate lending for policy purposes.

**23. More detailed analysis of budget classification will likely be required to ensure it is fully aligned with international standards.** As an initial step, Annex XI presents the conceptual differences between the budget and GFS economic classifications, a bridge table between the current budget classification and GFS based cash flow categories, and a template proposing changes to the high-level aggregates of the budget classification to bring it into line with the GFSM 2014 format.

## **E. Chart of Accounts**

**24. The authorities have committed to preparing modified-accrual based financial statements, based on international public sector accounting standards (IPSASs).** With the assistance of UNDP, they have developed a concept note for the introduction of the new accounting framework, and from January 2019 intend to implement 12 new national public sector accounting standards. These are based on accrual IPSAS, except for the standard on the chart of accounts (COA) as IPSAS do not include any standard governing COAs.<sup>10</sup> Apart from the COA standard, the new Uzbekistan standards are close to those reviewed by FAD in 2014.<sup>11</sup> The new standards will be implemented in all budget organizations, State Targeted Funds (STFs), ministerial funds and OBAs of budgetary organizations on a pilot basis in parallel with the existing accounting framework. Once these standards have been implemented successfully, the MoF will consider the next stage of accounting reform with a view to reflecting all IPSASs in their new accounting framework.

**25. If their implementation is successful, the MoF intends to publish the consolidated general government sector financial statements for 2019 according to the new standards.** The separate budget organization financial statements will be prepared using UzAsbo, the stand-alone accounting software designed by the MoF's IT department and in use for some years. These separate statements will be imported into the GFMIS for consolidation. The developer of the GFMIS has not yet developed the consolidation software, but given its track record (it has provided automation solutions to the Treasury since the latter's inception) there is confidence that it will be able to do so. Publication of consolidated general government sector financial statements for 2019 would be an impressive achievement, for fiscal transparency in general and for developing a balance sheet approach to fiscal policy in particular.

**26. At the request of the MoF, the mission discussed the COA with its staff.** Because of the brief time available, the discussions were not exhaustive and so the comments in this report

<sup>10</sup> In Uzbekistan, as with most countries in the region, the COA has a narrow meaning, i.e., as the set of accounts used for double-entry accounting. This contrasts with a broad meaning of the COA i.e. as a set of classifications, including functional, administrative etc, of which the classification used for double-entry accounting is one.

<sup>11</sup> J. Zohrab and I. Grigoryan, *Uzbekistan. Review of Draft Accounting Standards*, October 2014.

are preliminary in nature. The MoF also requested advice on reporting formats and types of fiscal indicators to include in these formats, which is provided at Annex XII.

**27. The MoF intends that treasury balances and transactions, government debt, and tax and customs revenues be reflected in separate financial statements (of the MoF, Tax Committee and Customs Committee respectively).** Thus, they would be consolidated in the proper way, to preserve the discipline of the underlying accounting process. This is a very welcome intention, the realization of which would help considerably to assure the quality and credibility of the consolidated financial statements.

**28. The COA is unified in the sense that it is intended to apply to all entities of the general government sector.** However, it will not initially apply to the UFRD and SOEs (including SUEs) that are general government units; the inclusion of these entities in the new accounting framework will depend on completion of the GFS institutional classification exercise discussed in Chapter I. This institutional unification of the COA is welcome. In the 2005 and 2011 versions of the COA, institutional unification was envisaged, but in recent years the MoF has contemplated separate COAs for different types of institution, which is not advisable.<sup>12</sup>

**29. The COA should support cash budget execution reporting.** This implies a second dimension of unification, between the budget classification and the COA. In the 2005 and 2011 versions of the COA, this was achieved by additional sections of the COA for cash budget accounting, so that for each transaction involving a cash flow there would be two sets of double entries, one set for cash budget accounting and one set for accrual financial accounting. This was the same approach as reflected in the Kyrgyz Republic and Armenia COAs. There are arguments for and against this approach; arguably, it is a purer implementation of the principle of double-entry accounting and its inherent consistency checks, but it could also be more complex and difficult to implement from an IT perspective.

**30. The new version of the Uzbekistan COA dispenses with additional sections for cash budget accounting.** Instead the budget classification codes are linked to the COA codes; at the budget organization level, operators will input both codes, whereas at the MoF level the software will input the COA codes automatically via a bridge table once the budget classification codes have been input by the operators. This approach is practicable, but it could be susceptible to greater error, because of additional manual entry and the need to maintain the bridge table's accuracy.<sup>13</sup> This potential problem is not sufficiently serious to delay the implementation, but it should be a focus of the internal control and audit system and be considered as appropriate in the context of a review of the first set of consolidated financial statements.

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<sup>12</sup> *Op. Cit.*

<sup>13</sup> The mission did not review the bridge table.

**31. The accounts of the COA are a mixture of high-level economic, institution and budget/source of funds types.** The accounts of the 2005 and 2011 versions of the COA were predominantly of an economic type, reflecting fully the GFSM 2001 economic classification. The inclusion of institution and budget/source of funds type accounts in the COA is an issue of efficiency and style. In principle, the administrative and budget/source of funds classifications should be able to separate the data captured by the COA as required and so avoid the need for it to embed them; moreover, such separation is required to a substantial extent because only the high levels of the administrative and budget/source of funds classifications are embedded in it. However, this issue is not sufficiently significant to delay the implementation.

**32. In contrast, the non-reflection in the COA of the full set of GFSM 2014 economic and asset/liability classification categories could become a serious problem.** The budget classification enables reports on a cash basis to be produced according to the GFSM 2014 economic classification. However, once reliable consolidated government financial statements are produced, and they begin to be used in fiscal policy, there will be a demand for them to incorporate accrual flow and stock data according to GFSM 2014. MoF staff indicated that they plan to develop a bridge table from the COA to the GFSM economic and asset/liability classifications for this purpose. However, it is not clear that this will be possible; if it turns out not to be possible, the COA could need to be amended substantially in due course.

## **F. Recommendations**

**Recommendation 3.1:** Present in the 2019 Budget Message the additional information set out in Section B of this Chapter and its related annexes. Information that was not able to be included, should be included from the 2020 budget.

**Recommendation 3.2:** Assign authority for the development of the Fiscal Risk Statement to a division in the Main State Budget Department and begin compiling the information necessary to expand fiscal risk analysis as set out in Annex X.

**Recommendation 3.3:** Amend the draft COM resolution in line with the detailed comments provided to the MoF and which are summarized in Annex IX.

**Recommendation 3.4:** Amend the budget classification to incorporate changes to high-level descriptions and ordering of the classification to bring it into more line with *GFSM Statement of Sources and Uses of Cash* and to identify separate lending for policy purposes as outlined in Annex XI.

**Recommendation 3.5:** Review the ability of the new accounting system to produce reliable accrual flow and stock data according to GFSM 2014 for incorporation in the consolidated government financial statements.



# SUPPORTING PFM FRAMEWORKS

## A. Legislative Framework

**33. Implementing announced and planned reforms will likely require legislative amendments.** It could be helpful, for example, to establish several definitions in the Budget Code, including for the general government sector, extra-budgetary funds, and SOEs, as well as for the different measures of the budget balance that are required to be reported. The Budget Code will also need to be amended to provide a platform for the introduction of the MTBF once design elements have been agreed, and pilot phases completed. In due course, formalizing the role of Parliament in conjunction with revised rules for supplementary budgets would be appropriate. Establishing a legal mandate for the MoF to prudently manage risks to public finances could also help ensure it is able to access the information it needs to carry out this function; this could include reporting and monitoring of SOEs if a separate SOE Law is not envisaged. Given the breadth of reforms, a comprehensive assessment of the legislative amendments needed to support reforms should be conducted.

## B. Development of a Rules Based Fiscal Framework

**34. The government is proposing to put in place a rules-based fiscal framework.** As an initial step, the draft 2019 Budget Message included medium-term fiscal targets. The fiscal targets proposed by the authorities include:

- Setting a limit on public debt of 50 percent of GDP, with a debt brake mechanism applying above 40 percent of GDP; and
- Setting a limit on general government consolidated budget deficit of 2 percent of GDP. The consolidated budget is defined in the budget code as the state (central and local) budget plus the state targeted funds (and excludes the UFRD).

**35. Careful consideration needs to be given to the design and calibration of fiscal rules.** Frequent changes to numerical rules can affect market perceptions of policy credibility. It is therefore important that fiscal rules are carefully designed and that the pre-requisites for their successful implementation are well-established. Key amongst these are the need for a unified and comprehensive budget (as discussed above); credible macroeconomic and fiscal forecasts so that policy can be formulated with some degree of reliability; and transparent fiscal reporting so that compliance with the fiscal rules can be assessed. In Uzbekistan, these pre-conditions are not yet fully established and parallel actions to address these gaps will be required for any rules based fiscal framework to be effective.

**36. Before formalizing the fiscal rule framework, and entrenching numerical targets as rules within the Budget Code, several issues need to be resolved, including:**

- **Budget coverage and classification.** Numerical limits for the budget deficit and debt should be formulated taking account of proposed changes to budget classifications,



coverage and presentation. Plans to bring EBFs, OBAs of budgetary organizations and non-market SUEs into the budgetary and accounting system will impact on reported fiscal aggregates and have implications for the fiscal rule framework. In view of this, the FTE suggested that it may be useful to conduct a detailed analysis before formalizing numerical fiscal rules.<sup>14</sup>

- **Definition of the targeted budget deficit.** The government will need to clearly specify what measure to target for any deficit rule. As a general principle, fiscal balance rules should be based on the broadest measure the government is able to control effectively, such as the overall fiscal balance based on a broad institutional coverage. Targeting the broader measure also deals with the inherent difficulties in appropriately classifying capital injections as either expenses or transactions in financial assets.
- **Ensuring suitable flexibility.** Fiscal rules should have sufficient flexibility and avoid being pro-cyclical. This is particularly important in Uzbekistan, where fiscal policy is the primary tool for controlling inflation and avoiding external imbalances. The design of a fiscal rule framework in Uzbekistan would need to take account of higher than average revenue volatility and how the UFRD should be integrated. Care will need to be taken to ensure any fiscal rule does not unduly amplify economic or commodity price cycles. Some options to avoid pro-cyclically include, focusing on controlling expenditure, allowing for targets to be achieved on average over several years, rather than in each year, or through well-developed escape clauses that temporarily suspend the rule during a major shock.
- **Mechanisms to enhance enforceability.** Fiscal rules frameworks often incorporate corrective mechanisms that prescribe the action to be taken if fiscal outturns are not in line with the fiscal rules. Some frameworks rely on detailed (or automatic) corrective mechanisms, which prescribe the size and timeframe for the correction, and in some cases, also the nature of measures to be taken. Others take a more procedural approach, for example a requirement that the government put forward a corrective plan in case of noncompliance with the fiscal rules. Either way, the MoF needs to have capacity to ensure corrective mechanisms can be implemented in the event of deviation from fiscal rules.
- **Integrating fiscal rules into budget planning.** To ensure compliance with fiscal rules, the budget process will need to incorporate an earlier strategic phase to ensure fiscal objectives are translated into clear and effective operational guidance over budget preparation.

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<sup>14</sup> The draft Fiscal Transparency Evaluation stated: "The government's medium-term fiscal objectives should be well-specified and take account of related changes to budget coverage and presentation recommended by this evaluation. In line with good practice, fiscal policy objectives should be comprehensive in terms of a clear delineation of the boundaries of fiscal operations that they seek to cover. It could be worthwhile to conduct a more detailed review ahead of determining these objectives, to consider the basis of their coverage, how they will be assessed, and how reports on performance and compliance can be incorporated in the budget documentation.

## C. Appropriation System

**37. Uzbekistan’s parliament currently does not appropriate expenditure.** It is understood that the Parliament only formally approves the state budget deficit as a percentage of GDP.<sup>15</sup> FAD has previously recommended introducing a parliamentary appropriation system to help control expenditure, demonstrate accountability, and underpin fiscal transparency. The introduction of a parliamentary appropriation system was also envisaged as part of the MoF’s *PFM Reform Strategy 2007–18*, but actions to implement it have not yet been undertaken (Annex XIII). To enhance parliamentary scrutiny of the budget, the FTE recommended that the Budget Code be amended to: (i) reduce the ability of the government to increase expenditure in the face of surprise revenue windfalls without prior parliamentary approval (by 2020); and, following a review, expand parliamentary approval over expenditure allocations (by 2021).

**38. The Presidential Resolution of budget openness and transparency committed to introducing a parliamentary appropriation system from the 2020 fiscal year.** The resolution requires that the state budget and the budgets of STFs be approved by law, according to advanced international standards and with detailed breakdowns.<sup>16</sup> Adopting a parliamentary appropriation system is a major endeavor. It will require significant consultation with budget organizations, to ensure they are aware of any limits imposed on them, and with the Parliament. It will also necessitate amendments to the Budget Code, including arrangements for making within-year changes to appropriations and requirements for supplementary budgets. It might not be feasible to make these changes in time for the 2020 budget preparation.

**39. Under a parliamentary appropriation system, appropriations are generally approved by parliament by the first level of the administrative classification and the first level of the economic classification.** Given the President’s Resolution, and the government’s intention to reflect also programs that have been approved by the President, appropriations by relevant first level administrative units should also be sub-divided into STFs and programs. However, it would be premature to include a breakdown by the full source of funds classification. It would also be premature to include a breakdown by the full program classification, which would take considerable time to develop. Annex XIV contains a proposed format for initial consideration. In addition, there should be an appropriation to budgetary reserves, for expenditures that could not be anticipated at the time of budget preparation (e.g., to meet the costs of natural disasters), with clear criteria set to govern approval for their drawdown.

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<sup>15</sup> Article 98 of the Budget Code implies a slightly broader role for Parliament in approving: the forecast of the main macroeconomic indicators; the main parameters of income and expenditures of the State Budget, the budget deficit and sources of financing; and the key parameters of the state trust funds.

<sup>16</sup> Resolution of the President of the Republic of Uzbekistan No. 3917 of August 22, 2018.

**40. The following procedures should as a minimum be included in the Budget Code:**

- Definition of a parliamentary appropriation as an authority, but not a requirement, to incur expenditure on a cash basis up to a certain limit;
- Prohibition of any expenditure except pursuant to a parliamentary appropriation;
- Authority for the government to approve detailed breakdowns of the parliamentary appropriations and for it to delegate this authority to the MoF as it sees fit;
- Authority for the government to approve virements between first level administrative unit appropriations in limited cases such as transfer of functions, between sub-divisions of these appropriations, and between economic category appropriations except between capital and current expenditures, up to a limit of between 5-10 percent, and for it to delegate this authority to the MoF;
- Procedures for expenditures pursuant to budgetary reserves; and
- Procedures for a revision to the annual budget law during the year if both the government and parliament agree.

## **D. Treasury Single Account**

**41. Comprehensive coverage of the general government sector by the Treasury is important for fiscal transparency as it facilitates comprehensive, timely and accurate fiscal reporting.** The coverage of the Treasury Single Account (TSA) system is a central part of Treasury coverage. Currently, all UZS-denominated transactions of the general government sector are processed via the Treasury, except those of the UFRD and SOEs (including SUEs) that are general government units. The authorities outlined to the mission their plans for the extension of TSA coverage to include foreign exchange-denominated transactions originated domestically (i.e., excluding those originated by embassies abroad).

**42. The TSA system currently comprises one UZS-denominated bank account in the name of the Treasury at the CBU.** It is used to process UZS-denominated transactions. It is a client account rather than a correspondent account.<sup>17</sup> The Treasury and CBU are planning to establish a second UZS-denominated client account to process foreign exchange-denominated transactions; the inflows and outflows will be converted automatically into and from UZS at the CBU's prevailing rate, which is currently fixed weekly. The Treasury's accounting system will contain the breakdown of the foreign exchange-denominated accounts, by currency and counterparty. A number of issues remain to be resolved:

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<sup>17</sup> Correspondent accounts are linked with membership of the interbank settlements system. Client accounts generate full bank statements, whereas a correspondent account statement only shows the total net flow for the day in a single line, as the settlements systems generates the detailed transaction data. Treasuries in many other countries are members of their settlements systems; this arrangement has transaction cost advantages but places greater pressure on the Treasury's internal control system.

- The conditions under which donors, providers of both credits and grants, will agree to close their commercial bank accounts and open accounts in the Treasury. These will need to be discussed with the donors individually. It is likely that they will not be willing to bear foreign exchange risk, in which case the Treasury will bear it;
- Whether the Treasury will assume or hedge its foreign exchange risk. In the case of hedging, the logical approach would be to do so via forward foreign exchange contracts with the CBU; and
- How frequently the balances in the foreign exchange TSA will be swept into the UZS TSA in order to make most efficient use overall of cash resources.<sup>18</sup> Daily sweeps would be desirable.

## E. Internal Audit

**43. Internal control systems, including internal audit, assures the reliability of the financial statements, including that the accounting standards and policies have been complied with.** Credible financial statements should include a statement of responsibility for the internal control system and that it was operating effectively during the relevant period. External audit also relies on the internal control system. When, in future, Uzbekistan produces consolidated government financial statements, it is likely that, following international good practice, the statement of responsibility will be made by the Minister of Finance. Thus, the design and implementation of the internal control system is an important fiscal transparency issue.

**44. FAD has previously recommended that an internal audit function be included in the Treasury and operate according to international internal audit standards.** While a control division exists in the Treasury, it conducts ex ante, current and ex post control rather than internal audit according to international standards. The report of the February 2016 FAD mission discussed the division's activities, its relationship with the MoF's budget sector-wide financial inspection service (CRU) and the Treasury's reform plans with respect to internal control and audit.<sup>19</sup> The mission recommended that the MoF modernize internal control and internal audit in the Treasury according to international standards as a short-term objective, while retaining their modernization in the government sector as a whole as a medium-term objective. In addition, it recommended that the MoF prepare and approve:

- A conceptual framework for modernized internal control and internal audit in the Treasury;
- An operations manual for the Treasury to codify the internal control system according to the conceptual framework;
- An internal audit manual to codify modernized internal audit in the Treasury; and
- An implementation plan along the lines set out in paragraph 49 of the mission's report.

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<sup>18</sup> The Treasury places idle cash in commercial bank deposits by auction.

<sup>19</sup> J. Zohrab and P. Crow, *Uzbekistan. Implementation of the GFMIS*, February 2016.

As of October 2018, these recommendations had not yet been implemented.

**45. At the request of the authorities, the current mission made a presentation to the Treasury on international models of internal financial control and audit.** Particular emphasis was given to the significance of internal financial control and audit for the production of credible financial statements. The authorities indicated that they intend to develop a plan for introducing internal financial control and audit according to international standards in the government sector as a whole, in line ministries and budget organizations as well as in the Treasury, and to seek FAD's advice on the plan. The MoF has begun to receive TA in this area from the Asia Development Bank (ADB).<sup>20</sup>

## **F. Recommendations**

**Recommendation 4.1:** Undertake a review of the legislative changes required to the Budget Code, other legislation and supporting regulations, required to facilitate the implementation of planned reforms (2019).

**Recommendation 4.2:** With support from international institutions, undertake a full analysis of the options for a rules-based fiscal framework and necessary reforms to the PFM system required to support its effective implementation prior to enacting legislative amendments.

**Recommendation 4.3:** Adopt the principles set out in sub-Section C (paragraph 40) governing procedures for parliamentary appropriation, as the basis for amendments to the Budget Code.

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<sup>20</sup> The terms of reference of this TA project can be found at <https://www.adb.org/projects/51350-001/main#project-tenders>.

## Annex I. Progress Since the Fiscal Transparency Evaluation

The following outlines progress since the FTE was conducted in June 2018:

- Establishment of a new division in the Ministry of Finance tasked with improving GFS and ensuring transparency;
- Inclusion in the draft 2019 budget submitted to Parliament of: medium-term projections for revenues, expenditures, state budget balance, and government debt; analysis of macroeconomic risks and the impact of alternative assumptions on the budget balance; and numerical fiscal objectives;
- Closure of three state targeted funds and one EBF, with their activities subsume within the state budget;
- Publication of a citizen's budget based on the 2018 budget documentation (a citizen's budget for 2019 is planned to be published alongside the budget this year);
- Approval of a Presidential Decree in August 2018 to further increase openness and transparency in budget data and strengthen parliamentary and public monitoring of public finances. Some of the key elements include:
  - Approval of updated budget classification, in accordance with GFSM 2014, by July 2019;
  - Development of an action plan to harmonize budget accounting procedures with IPSAS for 2019–20;
  - Requirement for the state budget and budgets of state targeted funds to be approved by law, from 2020, with a detailed information breakdown in line with international best practices;
  - Mandatory publication of the findings of the Chamber of Accounts on the draft budget and end-year budget execution report;
  - Launch of an open budget information portal;
  - Establishing, from 2019, a mechanism for citizen participation in the allocation of budget funds, providing that at least 10 percent of supplemental sources of district (municipal) budgets be channeled to funding measures formulated on the basis of public opinion;
- Preparation of a draft COM decree implementing recommendations of the Fiscal Transparency Evaluation, and additional reforms to strengthen transparency, including:
  - Bringing mandatory revenues of off-budget accounts of extra-budgetary funds within the budgetary and accounting system;
  - Undertaking an inventory of government owned or controlled units to assess which should be classified as general government units in accordance with GFSM 2014

- Bringing state-unitary enterprises that would be classified as general government units within the treasury single account and budgetary and accounting system;
- Developing a balance sheet for the general government sector;
- Publishing a statement on fiscal risks and developing a framework for fiscal risk monitoring and management;
- Reporting on tax expenditures;
- Improving budget classification and developing program classification.

The draft 2019 Budget Message also included additional proposals to be implemented in subsequent years. These include:

- The introduction of more sophisticated fiscal targets which potentially address revenue shocks and windfalls, and which help to contain expenditure growth in certain target areas, such as public sector wages;
- Introduction of medium-term expenditure ceilings by Ministry from 2020 and a program budgeting framework from 2021;
- Publication of a tax expenditures statement in 2019;
- Reviewing arrangements for the Parliament’s approval of the budget, including the level of detail at which budget expenditure is approved, for implementation in 2020; and
- Including in the budget, comparison of forecasts of the State budget parameters with the forecasts of independent institutions for implementation in 2019.

## Annex II. Guidance on Sector Classification

General government consists of all public institutional units that are **non-market producers** whose output is intended for individual and collective consumption and are financed by compulsory payments made by units belonging to other sectors.

In addition to 'ordinary' government entities which exist through a legal process to have judicial authority (budgetary organizations or extra-budgetary funds), the sector of general government should also include (i) non-market public producers e.g., SOEs if their output is mainly non-market; and (ii) non-profit institutions recognized as independent legal entities which are nonmarket producers and are controlled by general government. The guidance below focuses more on the specificities of the sector classification of SOEs than on non-profit institutions considering the potential material impact of their sector classification. The main challenge to appropriately sectorize non-profit institutions is to determine if they are controlled or not by government. Otherwise, the main market/non-market criteria are applicable to both, SOEs and non-profit institutions.

The question arises whether SOEs which do not act as a commercial unit but rather depend on government decisions and financing could be considered as market producers and thus classified outside the general government, or as non-market producers and therefore consolidated within the general government sector.

To determine the market or non-market nature of a public unit a set of criteria should be applied: (i) examining if the entity is an autonomous institutional unit, (ii) assessing some qualitative criteria to evaluate if the unit undertakes its activities on a commercial basis, and (iii) performing a quantitative market/non-market test to examine if the unit provides its goods and services at economically significant prices.

If the entity is not an **autonomous institutional unit**, it should be consolidated with the government unit which established the entity. In order to be said to have autonomy of decision in respect of its principal function, a public unit (SOEs and public units involved in financial activities) must be:

- a) entitled to own goods or assets on its own right; it will be able to exchange the ownership of goods or assets in transactions with other institutional units;
- b) able to take economic decisions and engage in economic activities for which it is responsible and accountable at law;
- c) able to incur liabilities on its own behalf, to take on other obligations or further commitments and to enter into contracts;
- d) able to draw up a complete set of accounts, comprised of accounting records of covering all its transactions carried out during the accounting period, as well as balance sheet of assets and liabilities. The following cases deserve more attention:



- If the entity does not keep a complete set of accounts or, if it is not possible to compile it, its partial accounts are to be integrated with the institutional unit's accounts.
- If an entity, while keeping a complete set of accounts, has no autonomy of decision in the exercise of its principal function, it should be part of the unit that controls it.
- Individual entities part of a group and keeping a complete set of accounts are considered institutional units even if a central body (head office), recognized as institutional unit, is responsible for the general direction of the group.
- Entities, keeping a complete set of accounts, that do not have a separate legal status, but have an economic and financial behavior comparable to that of corporations (i.e. market producers) that is different from that of their government owners are deemed to have autonomy of decision and are classified as quasi-corporations in the corporations sector outside the general government sector.

The following **qualitative criteria** should be examined to determine whether SOEs or public units involved in financial activities undertake their activities on a market or non-market basis:

- If the unit is a dedicated provider of ancillary services<sup>1</sup> to government, it is a non-market producer and in general, it would not satisfy the criteria to be an institutional unit. Therefore, it should be consolidated within the government unit.
- If the unit sells most of its output to government, or if it is the only supplier to government, and it does not go through open competition (e.g. through tender procedures), the unit (SOE or financial corporation) should be consolidated within general government.

**Quantitative criterion** usually referred to as the “**market/non-market test**” (or 50 percent test). It is as a practical supplementary tool to distinguish market (SOEs) from non-market public units (government) by comparing revenue sales and production costs over the medium term. Non-market producers are typically providing their output free of charge or at prices that are not economically significant.

From a general point of view, normally a private market producer cannot incur losses in the long run as this would mean a negative return of equity. The case of a public market producer is different in the sense that in many cases one can assume that government would provide support for public policy reasons. A public market producer will act as a business unit subject to market forces such that it might have to close down if it cannot survive at those prices without the permanent support of government or it would be subject to restructuring.

SOEs could only be classified as market producers outside the general government sector if their:

$$\text{Revenue from sales} > 50 \text{ percent of production costs over at least 3 years}$$

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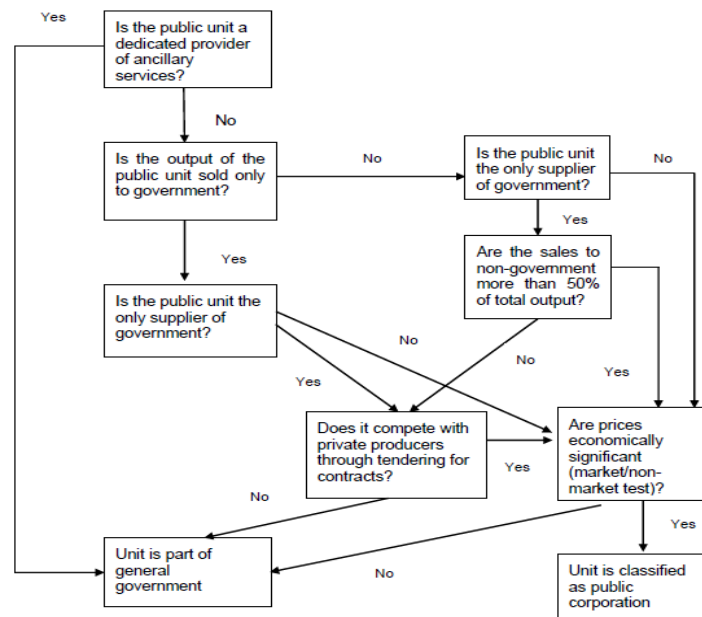
<sup>1</sup> An ancillary activity is a supporting activity to enable the government to carry out its activities (e.g. accounting; data processing; transportation; maintenance; cleaning; security services).

Sales: include revenue from sales of goods and services before taxes. Sales should not include any payments receivable from government unless they would be granted as real “purchase of goods and services” to any other producer undertaking the same activity. In addition, compulsory payments collected by SOEs but are de facto taxes (e.g. airport fees) should not be included in sales.<sup>2</sup>

Production costs: include compensation to employees, use of goods and services, consumption of fixed capital (CFC), other taxes on production, and return in capital. The latter could be measured as net interest expenditure. Particular attention should be given to the valuation of CFC, which should be according to international statistical standards based on current replacement costs of fixed assets that may result in considerably higher value of CFC than a depreciation coming from the bookkeeping. This should be taken into account, especially when testing SOEs which hold significant amounts of fixed assets (e.g. railway company).

The 50 percent test should be applied to all SOEs on individual basis. Although it can be performed on an annual basis as part of the GFS compilation process, it is recommended to keep the classification of the unit under consideration for at least three years and only reclassify it if: (i) the criteria hold for more than three years; or (ii) if there are clear expectations that it will hold for several years in the future. The quantitative criterion should not be considered the only relevant criterion determining the classification of the entity. It should be used in combination with the qualitative criteria.

### Decision tree for the sector classification of public institutional units



<sup>2</sup> Since only government collects taxes, such revenues should be rerouted via government accounts: recorded as tax revenue and at the same time as a transfer (subsidy) payable to the public corporation which collects the taxes.

**Other specific indicators** – it is recommended to also check some other relevant information which can provide some further supporting arguments to classify SOEs inside the general government. For example, if it is likely that those SOEs and public units involved in financial activities which receive substantial government financial support via subsidies, other transfers, lending (especially if concessional or non-recoverable), or equity injections (not bringing market return / dividends), or enjoy other risk-reducing factors such as substantial government guarantees, will respond to changes in the economic conditions differently from corporations without such advantages because their budget constraints are softer, and so are more likely to be classified as non-market producers.

**Public financial corporations.** Contrary to SOEs involved in activities of a ‘nonfinancial’ nature, the quantitative 50 percent test could not be applied to public units involved in financial activities (banks and other financial intermediaries). The main criteria to classify such a unit into the public financial corporation sector is to check if the unit operates like a real financial intermediary. A financial intermediary should *incur liabilities on its own account* for the purpose of acquiring financial assets by engaging in financial transactions on the market, acquire assets and incur liabilities with the *general public* or specified and relatively large groups, and importantly, it should place itself at risk. The following aspects may indicate that the unit should be classified within the general government sector as it doesn’t operate like a financial intermediary: it lends exclusively or extensively to government or other public sector units; it borrows exclusively from government or central bank; it benefits from widespread or blanket guarantees on assets and /or liabilities; it is engaged in policy lending.

### **Sector classification of specific units in Uzbekistan**

The section below explains the suggested sector classification of some specific units.

**Deposit Insurance Fund (DIF):** based on the international statistical standards,<sup>3</sup> a public unit involved in financial activities could only be classified as a financial corporation if it operates like other private financial intermediaries. However, the DIF doesn’t operate like an insurance company as the level of contributions (and rates) and level of reserves are not determined by the amount of risks exposure the DIF entity assumes. Therefore, the DIF should be classified in the general government sector among central government EBFs.

**Cumulative Pension Scheme:** the scheme has been established by a government law as a compulsory defined contribution pension scheme and is operated by People’s Bank. Participation in the scheme is compulsory for all households participating in the PAYG scheme; their savings including investment income are cumulated on their personal accounts. To classify such a scheme as a financial intermediary in the financial corporation sector, it should be an autonomous institutional unit, which bears all risks and rewards related to its activities. However, based on discussion with People’s bank, operation of the scheme is de facto regulated by the

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<sup>3</sup> GFSM 2014, 2.132 – 2.135.

MoF and Pension Fund which decide about the level of social contributions, the level of 'property income' which should not be lower than inflation which is also determined by the government, the savings should be invested in policy lending and deposits as determined by the government; the operational costs (including wages and salaries) incurred by People's Bank are fully reimbursed by the government; and the pension scheme doesn't have complete set of financial statements. Accordingly, the pension scheme doesn't have autonomy of decision, it can't be considered institutional unit and thus should be classified in the general government sector as a social security fund.

**Markets:** there are 276 markets (bazars) in Uzbekistan which have been established as joint stock companies. Local governments placed at disposal to the markets its land including buildings located in the territory and some equipment (e.g. scales). In exchange, local governments acquired 51 percent of their 'equity capital', that is de facto a claim on its nonfinancial assets (land, buildings, and equipment) rather than a share in their capital. The income of markets is coming from payments by households to the market's administration for the use of equipment and a permission to sell their products in the market. The administration is obliged to transfer 50 percent of its income to the local government. This arrangement has been established to ensure that local governments receive some income in lieu of tax evasions. Otherwise, local governments do not exercise a real control on the markets' activities. Therefore, the markets are not actually controlled by the government and should not be classified in the public sector.

## Annex III. Templates for Reconciling Between Different Fiscal Aggregates

### Reconciling the Consolidated Budget and GFS

	2015	2016	2017
<b>Working Balance (WB) - Balance of the Consolidated Republican Budget</b>			
<b>Excluding financing operations:</b>			
Inflows from financing operations (-)			
receipts from repaid loans			
privatization receipts			
Outflows from financing operations (+)			
repayment of government debt			
loans granted			
equity injections			
<b>Including revenue and expenditure not considered in the WB</b>			
Off-budget accounts of BCG (+)			
Expenditure financed by external debt (-)			
EBFs not included in the budget (+)			
...			
<i>Discrepancy</i>			
<b>Deficit/surplus (GFS net lending/borrowing)</b>			

### Reconciling general government budget execution with government bank accounts (2017)

	Cash balance (+/-)
<b>Budget execution</b>	<b>-4,082.1</b>
<b>Flows not covered in the budget execution:</b>	<b>2,218.9</b>
EBFs not included in the budget (+)	1,374.3
Off-budget accounts of BCG (+)	844.6
Borrowing from international FI (+)	0.0
Expenditure financed by borrowing from IFI (-)	0.0
Other borrowing (+)*	
<i>Discrepancy</i>	40,095.2
<b>Bank accounts (excluding impact of forex)</b>	<b>38,232.0</b>

\*For example, flows related to on-lending.

## Reconciling the change in deficit/surplus with the change in the debt stock

		2015	2016	2017
<b>1</b>	<b>Deficit (+)/Surplus (-)</b>			
<b>2=a+b+c+d+e</b>	<b>Net acquisition of financial assets (+/-)</b>			
2a	Currency and deposits (+/-)			
2b	Securities other than shares (+/-)			
	<i>Increase (+)</i>			
	<i>Reduction (-)</i>			
2c	Loans (+/-)			
	<i>Increase (+)</i>			
	<i>Reduction (-)</i>			
2d	Shares and other equity (+/-)			
	<i>Increase (+)</i>			
	<i>Reduction (-)</i>			
2e	Other financial assets (+/-)			
<b>3=a+b+c</b>	<b>Adjustments (+/-)</b>			
	Net incurrence (-) of liabilities not part of the debt, if			
3a	any			
3b	Revaluation of the debt (e.g. due to exchange rates)			
3c	Volume changes in the debt*			
<b>4=5-1-2-3</b>	Discrepancy			
<b>5</b>	<b>Change in the debt</b>			

\*For example, increase of debt due to the sector classification of non-market SOE into the general government sector.

## **Annex IV. Guidelines for Classification of Government Investments**

### **Treatment of Lending and Equity Injections**

Capital injections provided by general government entities to state-owned enterprises (SOEs), including banks, by means of equity injections, loans, or debt securities, should generally be recorded as expenses (capital transfers/subsidies) in cases where:

- There is not a reasonable expectation that a sufficient rate of return will be earned on the equity injection, or there is not a reasonable expectation of repayment of the loan;
- The equity injection is provided to cover large operating losses accumulated over two or more years or exceptional losses due to factors outside the control of the enterprises; or
- The equity injection is provided to entities that run recurrent losses that result from government policy objectives that are not covered by other transfers from the government.

Under GFS guidelines, equity investments are classified as transactions in financial assets, only in those cases, where: (i) the government receives something of equal value in return (a commensurate increase in the value of its equity stake, and (ii) there is a reasonable expectation that a realistic rate of return will be realized on the investment. A realistic rate of return is one that is sufficient for the PC to generate dividends (out of operating profits). Some governments use their long-term cost of borrowing, or average rate of inflation, as a benchmark for assessing whether such a return can be expected.

In those cases where the equity injection is provided specifically to acquire non-financial assets (i.e. when the corporation is not able to decide itself how to use the funds), it should be treated as capital transfer.

Loans are classified as transactions in financial assets only when the government receives an 'effective' claim for funds provided, based on a legal contractual agreement.

In some cases, the government may expect to meet these conditions on only part of its equity injection or loan. In these cases, under GFS, the government would record only the portion of the equity investment or loan on which an effective claim can be expected as a transaction in financial assets, with the remaining amount accounted for as an expense (capital transfer).

### **Forming an Assessment**

The appropriate treatment of loans or equity injections depends on evidence of the entities' profitability and its ability to pay dividends, or repay the loan, in the future. This generally requires an assessment of its current financial position, past performance, and expected future performance. Information on past financial statements and future business plans are therefore required to make a reasonable assessment. Invariably, some judgement is required.

The below factors can be used to help determine whether a reasonable expectation can be formed that loans will be repaid, or realistic returns can be generated on investments.

<b>More likely to be classified as an expense where the SOE:</b>	<b>More likely to be classified as a transaction in financial assets where the SOE:</b>
<ul style="list-style-type: none"> <li>▪ Regularly incurs large operating losses over a successive period (for example, two or more years);</li> <li>▪ Receives subsidies from government to cover operating expenses or loss-making activities;</li> <li>▪ Has other obligations to the government, or third parties, that are past due;</li> <li>▪ Benefited on a regular basis from guarantee calls paid by government on behalf of the enterprise:</li> <li>▪ Received repetitive capital injections from government to substitute unrequited transfers.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Has a consistent record of profitability;</li> <li>▪ Has a consistent record of meeting its debt and other obligations owed to the government;</li> <li>▪ Regularly pays dividends to shareholders; and</li> <li>▪ Is partially owned by a private shareholder who participates in the equity injection under same conditions as government.</li> </ul>

### Transparency in Reporting

To ensure fiscal activities are transparently reported:

- Net transactions in financial assets for policy purposes should be clearly disclosed in the budget and fiscal reports;
- Alternative measures of budget balance should be presented, including the consolidated<sup>4</sup> budget balance (equivalent to net lending/borrowing in GFS) and ‘overall consolidated budget balance’ which adjusts the budget balance for transactions in policy lending assessed in accordance with GFS guidelines.

The broader measure of the budget balance is consistent with the current requirements under the budget code and forms a good basis to guide fiscal policy.

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<sup>4</sup> The consolidated budget balance should cover the state budget (central and local budgetary organizations) and their off-budget accounts (until these are consolidated within the budgetary organizations); extra-budgetary funds, and the FRD.



## Annex V. International Guidelines for Budget Disclosure

The IMF's Fiscal Transparency Code, the OECD's Guidelines for Budget Transparency, and the Open Budget Survey Questionnaire all provide guidance on good international practices for disclosure of information in the budget documents.

The IMF's 2014 Fiscal Transparency Code, against which an assessment has already been conducted, presents basic, good, and advanced practices for disclosure of budget information including: macroeconomic forecasts; fiscal projections; information on changes in macro-fiscal projections between successive budgets; fiscal objectives; performance information on the major policy areas; and fiscal risks (macroeconomic and contingent liabilities).

The 2017 OBS included 53 separate questions on the content of the Executive Budget Proposal, and a further 44 questions on the content of other budget documents, including the pre-budget statement, mid-year review, and year-end execution report. The below highlights some of the key content requirements for the budget proposal:

- Expenditures for the budget year, presented by administrative unit, economic classification, functional classification, and by program, and revenue by revenue category (tax and non-tax) and individual source (e.g., income tax, value added tax etc.);
- Multi-year revenue and expenditure estimates for at least the two years following the budget year, and their details by revenue category and expenditure by the various different classifications as above;
- Detail of expenditure and revenue outturns or estimates for at least the two years prior to the budget year;
- Estimates related to government borrowing and debt, including details such as the amount of net new borrowing required during the budget year; total debt outstanding at the end of the budget year; interest payments on the debt for the budget year, as well as the composition of debt (such as maturity profile, domestic or external);
- Information on the macroeconomic forecasts, including discussion of the outlook and forecasts for the key economic parameters and assumptions (such as nominal GDP level, real GDP growth, inflation and interest rates);
- The impact of different macroeconomic assumptions on the budget forecasts (including the impact of a changes in GDP, interest rates, or other macro-relevant variables);
- Information on contingent liabilities, such as government loan guarantees or insurance programs; and
- Information on how new policy proposals, as distinct from existing policies, affect expenditures and revenue, at least for the budget year; a narrative discussion of the impact of these new policies; and how the budget is linked to policy goals;

- Information on financial assets and non-financial held by the government and estimates of their value for the budget year;
- Information on tax expenditures, including estimates of revenues forgone, their policy purpose, and intended beneficiaries;
- A range of other specific disclosures such as details of any expenditure arrears, long-term fiscal projections (over ten years) showing the sustainability of public finances; earmarked revenues, and transfers to public corporations to name a few.

In addition to the budget documentation, the Open Budget Index also reviews two other areas: (i) the role and effectiveness of external oversight institutions in the budget process, including the role of the legislature, supreme audit institution, and independent fiscal institutions (where they exist); and (ii) public engagement in the budget process.

## **Annex VI. Generalized Structure of Budget Documentation**

### **Budget Summary**

- A short explanation of the main fiscal aggregates, government priorities, and major new policy initiatives.
- Table 1: Summary the Main Fiscal Aggregates.

### **Budget Execution for Current Year**

- Description of recent economic developments in the domestic and global economy;
- Discussion of revised estimates for macroeconomic parameters for the current year; and comparison to original Budget forecast;
- Discussion of fiscal developments and revised estimates for the current year, and comparison to original Budget forecast.

### **Medium Term Economic Outlook**

- Discussion of the forecast of macroeconomic variables relevant for government finances;
- Table 2: Medium-term economic projections and underlying assumptions (include outcome for the previous year, revised estimate for the current year, budget year, and two forward years);
- Discussion of the main components of GDP forecasts and their drivers (for example, consumption, investment, government, exports or by key sectors);
- [For future budgets: Discussion of how the forecasts have changed since previous budget forecasts];
- Table showing how the forecasts compare to those of independent forecasters e.g. IMF, World Bank, Consensus.

### **Fiscal Strategy and Medium-term Fiscal Projections**

- Discussion of the government's fiscal objectives and projections of the main fiscal aggregates for State Budget, EBFs and Consolidated Budget;
- Discussion of State Budget and Consolidated budget and stance of fiscal policy in the medium-term;
- Tables 3, 4, 5 and 6: Medium-Term fiscal projections for State Budget, EBFs, Consolidated Budget and Financing (include outcomes for the previous year, revised estimate for the current year, budget year, and two forward years);
- [For future budgets: Table X: Reconciliation of Medium-Term Fiscal Projections].

### **Detailed Budget for Budget Year**

- Description of any new revenue and expenditure measures being introduced and their contribution or impact on the budget;
- Description of budget revenue projections and detailed explanation of them;
- Table 7: Budget year Revenue forecast presented by main revenue category;
- Description of budget expenditure projections and detailed explanation of them;
- Table 7: Budget year expenditure allocations presented by functional classification;
- [For future budgets: include annex on budget year expenditure allocation by administrative units (first level budget users) and by economic classification];
- Annexes: Budget year revenues and expenditures for each of the STFs and UFRD (table for each) accompanied by short explanations.

*Note: Future budgets could also present detailed revenues and expenditures for the medium term.*

### **State Development Program**

- Description of new major projects being initiated, their objectives, total costs, and financing;
- Table showing at least minimum level of information on major investment projects (project, total approved project cost, expenditure to date, source and type of financing)

### **Financing and Debt**

- Explanation of how the budget is being financed, with details of domestic and external financing;
- Table 8: Detailed Financing Requirements for the budget year;
- Government debt projections for the budget year and medium term, and discussion of the main drivers (e.g. deficit financing, other financing transactions);
- Detailed information on the composition of public debt, including source (bilateral loans, IFI loans, securities) and currency composition (table or figure on debt or debt share by currency);
- Discussion of how the debt is being managed [and, if appropriate, plans to develop domestic bond market];
- [For future budgets, and as appropriate, details of government securities on issue, including maturity date, amount, coupon rate];
- [For future budgets, expand discussion to include details of major financial assets, and include a table on financial assets and financial liability projections for the budget year, Table 9].

### **Fiscal Risk Statement**

- Discussion of the main macro-fiscal risks and the impact of alternative outcomes for key macroeconomic parameters on the main budget aggregates;
- Disclosure of explicit contingent liabilities (e.g. guarantees), contingent events (e.g., natural disasters) and other specific risks (e.g., state-owned enterprises);
- Outlines for the 2019 Budget Document and subsequent budgets are provided separately.

### **Other Annexes required by Budget Code**

Annex: Tax rates and obligatory payments.

Annex: Local budget parameters.

Annex: Standards for deductions from national tax revenues to local budgets.

Annex: Minimum cash balance requirements.

Annex: Reserve Fund requirements.

## Annex VII. Budget Reporting Templates

### Table 1. Summary of the Main Fiscal Aggregates

	2017	2018	2019	2020	2021
	Outcome	Original	Revised	Budget	Projections
State Budget Revenue					
State Budget Expenditure					
<b>State Budget Balance</b>					
Net Transactions in Financial Assets for Policy Purposes					
<b>State Budget - Overall Balance</b>					
Consolidated Budget Revenue					
Consolidated Budget Expenditure					
<b>Consolidated Budget Balance</b>					
Net Transactions in Financial Assets for Policy Purposes					
<b>Consolidated Budget - Overall Balance</b>					
Government debt					
Publicly guaranteed debt					
<b>Total public debt</b>					

### Table 2. State Budget

	2017	2018	2019	2020	2021
	Outcome	Original	Revised	Budget	Projections
Republican Budget					
Revenue					
Expenditure					
Of which <i>Net Investment in Non-Financial Assets</i>					
Republican Budget Balance					
Local Government Budget					
Revenue					
Expenditure					
Of which <i>Net Investment in Non-Financial Assets</i>					
Local Government Budget Balance					
State Budget					
Revenue					
Expense					
Of which <i>Net Investment in Non-Financial Assets</i>					
<b>State Budget Balance</b>					
<b>Net transactions in financial assets for policy purposes</b>					
Policy Lending					
Repayments					
<b>State Budget - Overall Balance</b>					

**Table 3. Extra-budgetary Funds**

	2017 Outcome	2018 Original	2018 Revised	2019 Budget	2020 Projections	2021 Projections
Revenue						
Pension Fund						
Employment Fund						
Privatization Fund						
UFRD						
Others						
Expenditure						
Pension Fund						
Employment Fund						
Privatization Fund						
UFRD						
Others						
<b>Balance of EBFs</b>						
Net Transactions in Financial Assets for Policy Purposes						
Policy Lending						
Repayments						
<b>EBFs - Overall Balance</b>						
* Include STFs, UFRD, and other EBFs.						

**Table 4. Consolidated Budget**

	2017 Outcome	2018 Original	2018 Revised	2019 Budget	2020 Projections	2021 Projections
Revenue						
Expenditure						
Of which <i>Net Investment in Non-Financial Assets</i>						
<b>Consolidated Budget Balance</b>						
<b>Net Transactions in Financial Assets for Policy Purposes</b>						
Policy Lending						
Repayments						
<b>Consolidated Budget - Overall Balance</b>						

**Table 5. Financing Requirements**

	2017 Outcome	2018 Original	2018 Revised	2019 Budget	2020 Projections	2021 Projections
Incurrence of Borrowing						
External						
Domestic						
Repayment of Borrowing						
External						
Domestic						

**Table 6. State Budget Estimates for 2019**

	2017	2018	2018	2019
	Outcome	Original	Revised	Budget
<b>Total Revenue</b>				
<b>Tax Revenue</b>				
<b>Taxes on income and profits</b>				
Enterprise profit tax				
Gross income tax-trade and catering enterprises				
Unified tax for small enterprises				
Excess profits tax				
Individual income tax				
Other				
<b>Taxes on goods and services and international trade</b>				
Value added tax				
Excise tax				
Customs duties				
Petroleum consumption tax				
Other				
<b>Taxes on property and resources</b>				
Property tax				
Land tax				
Mining tax				
Other				
<b>Non-tax Revenue</b>				
Grants from international organizations				
Grants from foreign governments				
Interest received				
Dividends				
Sales of goods and services				
Other				
<b>Expenditure*</b>				
....				
<b>State budget balance</b>				
<b>Net transactions in financial assets for policy purposes</b>				
Policy Lending**				
Repayments				
<b>State Budget - Overall Balance</b>				

\* Expenditure in detailed table presented as per national functional classification. Include separate presentation of expenditure by economic classification for budget year.

\*\* Policy lending can include loans or equity injections for policy purposes.



**Annex tables for Annual Budget: UFRD (prepare for each major EBF)**

	2017 Outcome	2018 Original	2018 Revised	2019 Budget
<b>Revenue</b>				
Commodity income				
Interest income				
Dividends				
Other				
<b>Expense</b>				
Purchases of goods and services				
Operating costs				
Grants				
Other				
<b>Transactions in Financial Assets for Policy Purposes</b>				
Policy Lending				
Loans				
Equity Injections				
Repayments of Loans				
<b>Overall UFRD balance</b>				

Note: Policy Lending includes loans provided and equity injections for policy purposes.

**Table 7. Detailed Financing Requirements**

	2017 Outcome	2018 Original	2018 Revised	2019 Budget
<b>Consolidated budget balance</b>				
Net transactions in financial assets for policy purposes				
Loans provided by government				
Loans repaid to government				
Equity transactions				
<b>Consolidated budget - overall balance</b>				
Net acquisition of other financial assets				
Cash and deposits				
Net investment in debt securities				
Purchase				
Sales				
Net investment in shares and equity				
Purchase				
Sales				
Net incurrence of liabilities				
Net incurrence of debt securities				
Issuance				
Repayments/maturities				
Net incurrence of loans				
Borrowing				
Repayments				

**Table 8. General Government Financial Balance Sheet**

	2017 Outcome	2018 Original	2018 Revised	2019 Budget
<b>Financial Assets</b>				
Cash and deposits				
Loans				
Debt securities				
Equity				
Other accounts receivable				
<b>Total financial assets</b>				
<b>Liabilities</b>				
Loans				
Debt Securities				
Other accounts payable				
Other liabilities				
<b>Total liabilities</b>				
<b>Net Financial Assets / Liabilities</b>				
<i>Memoranda:</i>				
Debt Guaranteed by Government				
Government and Guaranteed Debt				

**Table 9. Reconciliation of Medium-Term Fiscal Projections****a. Simplified Template**

	2018	2019	2020	2021	2022
<b>2019 Consolidated Budget - Overall Balance</b>	-200	-100	50	150	-
Change in Revenue	30	60	90	120	
Change in Expenditure	-20	-40	-60	-80	
Change in Net lending	-5	-15	-25	-35	
<b>2020 Consolidated Budget - Overall Balance</b>	-195	-95	55	155	250

**b. More Advanced Template**

	2018	2019	2020	2021	2022
<b>2019 Consolidated Budget - Overall Balance</b>	-200	-100	50	150	-
Effect of new policy decisions	-30	-40	-50	-60	-
Revenue	10	20	30	40	
Expenditure	-30	-40	-50	-60	
Net lending	-10	-20	-30	-40	
Effect of parameter and other variations	35	45	55	65	-
Revenue	20	40	60	80	
Expenditure	10	0	-10	-20	
Net lending	5	5	5	5	
<b>2020 Consolidated Budget - Overall Balance</b>	-195	-95	55	155	250

## Annex VIII. Template for Annual Fiscal Risk Statement

The Template below is an expanded version of the fiscal risk statement developed with the Ministry of Finance for inclusion in the 2019 budget. It is intended to provide a guide for how future statements can be expanded to provide a comprehensive overview of the main risks to the public finances.

### 1. Introduction

The medium-term macroeconomic and fiscal projections presented in the budget have been formulated taking into account expected developments in the domestic and global economy based on information available at the time of their preparation. There are a range of factors, and various risks that if they were to materialize, could cause macroeconomic and budget outcomes differing from those presented. The most significant of these would result from unanticipated macroeconomic developments that adversely impact on revenues and the budget position. Potential risks also arise from contingent liabilities such as government guarantees or deviations in the performance of state-owned enterprise from expectations. Other fiscal risks could also arise that cause expenditure to deviate from planned.

### 2. Macroeconomic Risks

The economic and fiscal forecasts underpinning the budget are subject to uncertainty around the future evolution of economic conditions and implementation of government policies. Unanticipated changes in macroeconomic conditions, particularly in external conditions, will cause fiscal outcomes to deviate from forecasts. Risks to the macroeconomic outlook could arise from: slower-than-anticipated domestic economic growth; a weakening in global economic growth which could result in lower prices for exports, particularly commodities; volatility in the exchange rate; deviations in the expected rate of inflation; an increase in the shadow economy; or faster or slower pace of implementing required structural reforms to the economy. The central macroeconomic assumptions which underpin the budget estimates are set out in [Chapter X]. Table 1 reports on the estimated sensitivity of the budget year fiscal forecasts to variations in these assumptions.

**Table 1. Sensitivity of fiscal position to changes in various economic parameters**

Economic assumption	Estimated variation in fiscal balance	
	UZS Billion	Per cent of GDP
Real GDP growth is 1 percent lower than forecast		
Inflation is 1 percent higher than forecast		
Prices for key commodities fall by 10 percent		
UZS-USD exchange rate depreciates by 10 percent		
Number of corporate taxpayers declines by 10 percent		

Lower than forecast real GDP growth. Lower than forecast GDP, due to a reduction in consumption, would result in reduced revenues to the state budget as a result of lower goods and service tax revenue and lower income taxes on company profits. Lower than expected GDP growth would also be associated with lower than expected inflation, which would also reduce revenues compared to forecast. For example, were GDP growth to be 1 percent lower than forecast, this would result in lower than projected revenues of [X] billion soms.

Risk of lower export prices. A decline in prices for Uzbekistan's main export goods (particularly commodities such as natural gas, copper, cotton and metals) would result in reduced revenues to the state budget as well as the FRD. For example, a decrease in export prices for natural gas by [X units] would result in a loss of budget revenues from taxes on the use of subsoil resources, as well as on the share in PSA, amount to [X] billion soms.

Exchange rate risks. Movements in foreign exchange rates also have an important bearing on fiscal outcomes, primarily through the local price received for export goods. A depreciation (appreciation) in the currency will typically lead to an increase (decrease) in the revenues of the State Budget, as a result of increased export earnings, partly resulting from enhanced competitiveness of domestic producers. At the same time, a currency depreciation will also have other important consequences for the economy. These include inflationary pressures from higher import prices, an increase in the value of foreign currency liabilities which may present additional risks for banking and financial system and typically contributes to a contraction of domestic demand. While higher inflation will increase revenues, it will also result in increased expenditures as those payments indexed to inflation such as wages and salaries, increase. A depreciation (appreciation) of the currency by 10 percent will lead to an increase (decrease) in state budget revenues of [X], and an increase of state budget expenditures of [Y].

Acceleration of inflation. The effect of unanticipated inflation on revenue is mainly due to changes in tax bases of withholding tax on income and from value added tax. Higher inflation generally serves to increase state budget revenues. At the same time, those payments indexed to inflation will also increase. The net impact on the budget overall of higher inflation is to improve the budget position. For example, if inflation were to be 1 percentage point higher than forecast in the budget, state budget revenues would increase by [X], and expenditures would increase by [y].

Measures to tackle the shadow economy. Tax revenues are affected to the extent to which major companies and small businesses participate in the formal economy and extinguish their tax liabilities. In 2019, a suite of new tax measures seek to improve the incentives for enterprises to register and pay taxes within the formal system. The budget includes estimates of the additional revenue that will be collected as a result of these new measures, of around UZS [4.2] trillion. The impact these measures will have is uncertain and variations in the rate of transition will impact on revenues. The state budget includes conservative assumptions regarding the additional revenues to be generate from these policy changes.

### 3. Government Debt

Changes in macroeconomic conditions will impact on the value of government debt and debt servicing obligations. Government debt is comprised of loans from international financial institutions and other external creditors, and all outstanding debt is denominated in foreign currency. Around [57] percent of outstanding borrowing is denominated in US dollars, and around [15] percent is denominated in yen, and [6] percent is denominated in Euro. The government does not currently issue domestic securities.

A depreciation in the exchange rate will therefore increase the value of government debt and debt servicing obligations. In addition, the government has guaranteed certain external borrowings of state-owned enterprises, the value of which would also increase in the event of exchange rate depreciation.

While a depreciation in the exchange rate will increase the value of debt, the government also has foreign currency deposits. A depreciation in the exchange rate will increase the value of those assets, offsetting adverse implications on the value of public debt.

In addition, public debt servicing costs are sensitive to changes in interest rates, with about half of the external borrowing in variable rate loans. An increase in interest rates on existing variable rate debt, would therefore increase debt servicing costs compared to those forecast in the budget.

Reflecting the fact that most borrowing is undertaken to finance infrastructure projects, the debt portfolio has an average maturity of [20] years. Short-term borrowing (loans maturing within one year) comprise a relatively small share of the overall portfolio at X percent.

**Table 2. Public Debt Portfolio Risk Indicators**

<b>Risk Category</b>	<b>Indicator</b>	<b>June-2018</b>
Foreign Exchange	Borrowing denominated in FX (share of total)	
	▪ USD denominated borrowing (share of total)	
	▪ Euro denominated borrowing (share of total)	
	▪ Yen denominated borrowing (share of total)	
	Guaranteed borrowing denominated in FX (share of total)	
Interest rate	Variable rate borrowing (share of total)	
Refinancing	Debt maturing in one year (share of total)	
	Average time to maturity (years)	

### 4. Specific Fiscal Risks

Government finances may also be impacted by the realization of contingent liabilities. These are costs that the government may face if a future uncertain event occurs. These can be either explicit liabilities, which are based on a firm government commitment or legal obligation, or implicit liabilities, where they may be a public expectation of government responsibility not

established in law. The section below provides an overview of the some of the government’s main contingent liability exposures.

#### 4.1 Government Guarantees

The government has provided guarantees on certain borrowings of state-owned enterprises, primarily to support external financing of public infrastructure development. As at June-2018 the, the stock of outstanding loan guarantees were [2.5] billion soms. The majority of these are guarantees provided on external borrowing of state-owned enterprises from bilateral lenders and commercial banks. Around [300] separate guarantees have been provided on external borrowing of various state-owned enterprises, [27] of which pay a fee. In addition, the government has provided a small number of guarantees on domestic borrowing, which totaled [X] billion soms as at June 2018. Table 3 provides a summary of the stock of outstanding guarantees by beneficiary.

**Table 3. Stock of Outstanding Guarantees to Enterprises (UZS Billion)**

	Outstanding Value	Date Provided	Date of Maturity
<b>External Guarantees</b>			
Enterprise 1			
Enterprise 2			
.....			
<b>Domestic Guarantees</b>			
Enterprise 1			
Enterprise 2			
...			
<b>Total</b>			

[If applicable: The fiscal costs associated with servicing guaranteed debts was [x] billion soms or [x] percent of GDP during the previous year.]

#### 4.2 Financial Sector Exposures

In accordance with the Law No. 360 of 2002 on guarantees of protection of deposits of citizens bank, the Deposit Insurance Fund guarantees payment of compensations for deposits of citizens in banks in the event that the Central Bank of Uzbekistan is required to revoke the license of the institution to conduct banking activities. The guarantee does not extend to revocation of license in connection to reorganization of banks.

There are 27 banks that participate in the Deposit Guarantee Fund. All deposits of citizens placed in these banks are guaranteed, without limit. In addition, all deposits placed at the Xalq (People’s) Bank are guaranteed by the government. The total value of deposits guaranteed by the Deposit Insurance Fund and Xalq Bank were [58.7] trillion soms or around [24] percent of GDP at end-2017.

In the event that the Deposit Insurance Fund's assets are not sufficient to meet compensation requirements, the government will provide the Fund with a loan to meet the shortfall with a subsequent return from the proceeds to the Fund. Thus far, the Deposit Insurance Fund has not been called upon to provide compensation to citizens.

Financial soundness indicators show that Uzbekistan banks remain well-capitalized and profitable. Non-performing loans are low compared to other countries and the capital adequacy ratio of banks overall is well above minimum regulatory requirements.

**Table 4. Bank Financial Soundness Indicators**

<b>Indicator</b>	<b>2017</b>	<b>2018 Q3</b>
Regulatory capital to risk weighted assets	18.8	15.8
Non-performing loans net of provisions	2.95	4.6
Return on assets	1.9	1.6
Return on equity	17.1	12.3
Liquid assets to short-term liabilities	55.65	40.1

Source: Central Bank of Uzbekistan.

The government also faces fiscal exposures by virtue of its ownership of 11 public sector banks. The financial performance of these banks varies. The government has provided periodic equity injections to state-owned banks to support their lending activities. In 2017, equity investment of [2.5] percent of GDP were provided, financed from assets of the FRD.

### **4.3 Non-Financial State-Owned Enterprises**

State-owned enterprises play a considerable role in the Uzbekistan economy, but they can also be a source of fiscal risk. Weaker than anticipated performance, deterioration in their financial position, or liquidity pressures can have potential implications on public finances through lower dividends and taxes paid, increased need for subsidies or recapitalization, or unanticipated calls on guarantees provided on their borrowing.

There are around 2,100 state-owned enterprises in Uzbekistan, including 107 joint stock companies with majority state ownership, 1,500 unitary enterprises, and around 500 limited liability companies. [The government is currently undertaking an inventory of all state-owned enterprises, to assess whether these are market producers or non-market producers, with a view to bringing non-market producers into the budgetary and accounting framework of the general government sector, in line with international standards for transparency and statistical reporting.]

#### **4.3.1 Financial Performance of Non-Financial State-Owned Enterprises**

Total assets of the [X] state-owned enterprises were around UZS [X] trillion (X percent of GDP) at [end-2018], while their total liabilities (both guaranteed and unguaranteed) were around UZS 530 trillion (X percent of GDP). The sector as a whole generated revenues of UZE [x] trillion (X percent of GDP) in [2018], [which is an improvement/deterioration] from the previous year.

**Table 5. Financial Position of the Non-Financial State-Owned Enterprise Sector**

	2017		2018	
	Billion UZS	Percent of GDP	Billion UZS	Percent of GDP
<b>Balance Sheet</b>				
Total Assets				
Financial Assets				
Cash and cash equivalents				
Other financial assets				
Non-Financial Assets				
Total Liabilities (excl. equity)				
Debt and other borrowing				
Other liabilities				
Equity				
<b>Income Statement</b>				
Total Revenue				
Operating Revenues				
Other Revenue				
Total Expenses				
Operating Expenses				
Other Expenses				

Data is on an aggregated basis and does not consolidate transactions between non-financial enterprises.

Table 6 summarizes key performance indicators for the sector as a whole. [This section should discuss the profitability, leverage, and liquidity of the sector in aggregate.]

**Table 6. Financial Performance Indicators**

	2017	2018
<b>Profitability</b> (Percent)		
Increase in Net Income		
EBITDA margin		
Net profit margin		
Return on equity		
Return on assets		
<b>Leverage and Solvency</b> (Ratio)		
Debt to Assets ratio		
Net Debt to EBITDA ratio		
Interest coverage ratio		

The Government is taking actions to strengthen the performance of the state-owned enterprise sector including by developing plans to restructure certain enterprises and strengthen their governance. [Discuss current reform plans and intentions].

### Financial Relations Between the Government and Non-Financial State-Owned Enterprises

Direct fiscal transactions between state-owned enterprises and the budget are not significant. In [2018] the state budget provided direct support in the form of grants and subsidies totaling UZS [X] million or [X] percent of GDP to state owned enterprises. These were primarily provided to [enterprise 1, 2, 3...] for the purposes of [provide details.] Dividends received from state-owned enterprises for [2018] totaled UZS [X] billion or [X] percent of GDP of which the most significant amounts were from [enterprise 1, 2, 3...].



The government has provided loans to state-owned enterprises, which are on-lent from its borrowings raised with International Financial Institutions. The borrowing is recorded as part of government gross debt. At end-June 2017, the total outstanding value of loans to state-owned enterprises was UZS [11.4] trillion or [13] percent of GDP. The most significant loans have been provided to [enterprise 1, 2, 3...] for the purposes of [specify details]. While these loans are recorded as part of government debt, fiscal risks arise in the event that state-owned enterprises are unable to meet their repayment obligations, as the government will need to service the loans from the state budget.

The government has also provided equity injections to state-owned enterprises. [Equity injections of USZ [X] billion were provided in the previous year.] On average, the government has provided equity injections to non-financial state-owned enterprises of [X] billion a year, over the period [2015 to 2018].

### Quasi-fiscal Activities

Quasi-fiscal activities are non-commercial activities undertaken by State-Owned enterprises to fulfill a public policy objective. Whilst these activities are intended to contribute positively toward achieving public policy objectives, if the enterprises undertaking them is not properly compensated, they can erode the companies' profitability. This can indirectly result in fiscal costs in the form of reduced dividends to government, or in more extreme cases, contributing to the likelihood that the enterprise may require additional fiscal support in the future.

Significant identified quasi-fiscal activities include [list material known quasi-fiscal activities.] [In line with the reforms being undertaken to improve fiscal transparency the government has initiated steps to collect information on the quasi-fiscal activities of state-owned enterprises]. The government has also taken steps to reduce these activities in the energy and other sector through tariff reforms and price liberalization. [Provide a brief summary of these actions].

### Natural Disasters

Events such as earthquakes and drought can have material impacts on the budget through revenue losses and the need for additional government expenditures to support incomes of those affected and to aid in the reconstruction of communities and public infrastructure. The timing and magnitude of such events is unknown. Since 1955, Uzbekistan has experienced 11 earthquakes above six in magnitude. The UNISDR has estimated the average annual economic losses from natural disasters in Uzbekistan at around 0.5 percent of GDP.

## Annex IX. Comments on the Draft COM Resolution on Improving GFS and Fiscal Transparency

<b>Resolution</b>	
Paragraph 3	The decree needs to take care to distinguish between extra-budgetary funds and extra-budgetary accounts of budgetary organizations, the latter should be "off-budget accounts or extrabudgetary accounts of budgetary organizations
Point 4	<p>The decree needs to take care to distinguish between extra-budgetary funds and extra-budgetary accounts of budgetary organizations, the latter should be "off-budget accounts or extrabudgetary accounts of budgetary organizations</p> <p>The decree refers to bringing all unitary enterprises funded by the budget within the treasury system and fiscal reports (Point 4 and Recs 1,2 and 3). This should be amended to refer to public corporations that are deemed to be non-market producers in line with GFSM 2014. The general principle should be that: All entities assessed to be general government units should be included in the budgetary and treasury system. This requires assessing each of those entities to determine whether they are non-market producers. It is possible that some unitary enterprises are market producers and so should be classified as public corporations.</p>
Point 5	<p>References to unitary enterprises should be replaced with public corporations assessed to be non-market producers</p> <p>All entities brought into the treasury should use the budget classification. In addition, the decree should require all public corporations to submit quarterly financial reports to the Ministry, and their annual audited financial statements.</p>
Point 6	Closure of those accounts of unitary enterprises in commercial banks, should refer to those unitary enterprises assessed to be non-market producers and that are brought within the treasury system.
<b>Attachment</b>	
Rec 2.	<p>This should refer to all extra budgetary funds, extra-budgetary <i>accounts</i> of budgetary organizations, and public corporations deemed to be non-market producers in accordance with GFSM2014.</p> <p>1.1 The inventory should be of all public corporations, to assess which ones are market and non-market producers.</p>

	<p>1.2 Proposes to amend the Budget Code and other legislative instruments to provide for full coverage of all public sector financial flows in the consolidated budget. This should be restricted to coverage of financial activities of general government units.</p> <p>1.3 This should be public corporations assessed as non-market producers</p>
Rec 2.	<p>References to unitary enterprises funded from the budget should be amended to refer to public corporations that are deemed to be non-market producers in line with GFSM 2014.</p> <p>All revenues in off-budget accounts which are operated by budget organizations should be included unless the unit which raises them meets definition of quasi-corporation. The paragraph should therefore also refer to “all revenue sources”, not just charges, fines and fees.</p> <p>2.3 needs to be clear to refer to closure of bank accounts of extra budgetary accounts of budgetary organizations and unitary enterprises deemed to be non-market producers in line with GFSM 2014.</p>
Rec 3.	<p>The state budget should only cover financial activities of general government units. As above, references to unitary enterprises funded from the budget should be amended to refer to public corporations that are deemed to be non-market producers in line with GFSM 2014.</p>
Rec. 4	<p>Propose to “Establish a memorandum of understanding to introduce the procedure to...”</p>
Rec 5.	<p>5.2 taxes retained by public corporations should also be included in the budget, in addition to GFS.</p>
Rec 6 and 8	<p>These two recommendations need to be clarified, both refer to preparation of balance sheets.</p> <p>The text of Rec 6 should refer to preparation of a balance sheet for the general government sector and the sequencing should be reconsidered so that action 6.2 follows implementation of action 6.1, or 6.1 is simply skipped.</p> <p>The sequencing and timeframe for action 8 which proposes a full balance sheet for the public sector should be reconsidered. We suggest first to focus on a financial balance sheet for the state budget (including off-budget accounts) and extra-budgetary funds. Then, expand to include non-financial assets of the general government. We therefore suggest replacing references to public sector in 8.1 and 8.2 with general government and amending 8.2 to “coverage of</p>

	<p>all general government sector liabilities and assets, including central and local government budgetary organizations, extra-budgetary funds, and non-market government-controlled enterprises. Timing for development of a complete public sector balance sheet should be deferred.</p> <p>Further, there is a need to clarify that these are statistical reports and statements of financial assets and liabilities not full financial statements, which would need to be produced following reforms to the accounting framework and aligned with those standards.</p>
Rec 10	We would suggest to prioritize improving budget reporting so that the budget and fiscal reports present economic and functional classifications in line with international standards, and delay introduction of program classification.
Rec 12	This should be harmonized with the introduction of a parliamentary appropriation system, which should be part of this action item, but with a later deadline.
Rec 13	The timing for preparation for parallel forecasting could be deferred, with all efforts focused first on ensuring the forecast methodology for those macro and fiscal forecasts underpinning the budget are as robust as possible.
Rec 15	References to macroeconomic and public debt should replace qualitative discussion with “discussion and quantitative analysis of the main sources of macroeconomic risks and risks related to public debt”. Clarify the reference to explicit contingent liabilities so that it refers to publication of the outstanding value of guarantees provided by their beneficiary or groups of beneficiaries. Consider adding to recommendation 15, (i) amending the Budget Code to require publication of an annual statement of fiscal risks and (ii) developing a framework for monitoring risks related to public corporations.
<b>Additional Comments</b>	
	The resolution could refer to expanding the level of information provided in the budget and fiscal reports to include: full breakdowns of expenditure by economic classification in line with international standards and reporting of expenditures by administrative level to promote greater accountability around how public funds are spent.

## **Annex X. Information Requirements for Preparing a Fiscal Risk Statement**

In order to prepare a comprehensive Fiscal Risk Statement the Ministry of Finance will need to collect information on the following:

- List of government guarantees on SOE borrowing or borrowing of other entities, including outstanding amounts and beneficiaries and currency denomination, as well as the history of any guarantees that have been called and the amounts paid out.
- A list of government loans extended to other entities (e.g. SOEs or private companies), the amounts outstanding and beneficiary, and whether any loans are in arrears.
- A list of entities that are outside the budget but are owned or controlled by the government, whether the entities are funds or state-owned enterprises, and for each entity data on their:
  - a. Assets and Liabilities, including ideally a breakdown short and long-term assets and liabilities (short-term being those maturing within one year); for assets, cash and cash equivalents and for liabilities; debt and other borrowing;
  - b. Income and expenses, including breakdowns for operating revenues and operating expenses, net profits, interest on borrowing, and net profit (before and after taxes);
  - c. Transactions with government, including dividends paid, subsidies received, and equity injections;
  - d. Information on overdue debts or payments, including on external obligations, to the government, to other SOEs, and other third parties;
  - e. Any contingent liabilities of SOEs, such as guarantees, indemnities or letters of comfort that they may have provided;
  - f. Information on their quasi fiscal activities, which are activities they conduct for public policy purposes, such as charging below commercial prices for goods and services or the provision of universal service obligations.
- Information on key financial indicators for banks and other financial institutions, and the deposit insurance fund, including its assets and total deposits guaranteed.
- Information on the government's debt and financial assets (including those held by UFRD) and information on factors that could affect the value of these debts and assets and the cash flows associated with them (such as the maturity structure of debt, whether borrowing is floating or fixed rate, and the currency composition of the portfolio).
- A list of public-private partnerships (or infrastructure projects being implemented by private partners under contract with the government), and information on the total value of the project and any direct or indirect obligations of the government under these contracts (such as guarantees to cover certain costs).
- The historical effects natural disasters and industrial accidents on the budget.

## Annex XI. Budget Classification

### a. Differences between the Budget Execution and GFS Economic Classification

Current Budget Classification		GFSM 2014 recording				Comments
		Above-the-Line		Financing		
		Revenue	Expenditure	Fin. assets	Liabilities	
<b>2</b>	<b>Revenue (a+b)</b>					
a.	Tax and non-tax revenue (other than financing)	✓				
b.	Revenue related to financial assets and liabilities (financing)					
	<i>i) receipts from repaid loans</i>			✓		(-) fin. assets/loans
	<i>ii) privatization receipts</i>			✓		(-) fin. assets/equities
	<i>iii) receipts from borrowing</i>				✓	(+) debt liabilities
<b>2</b>	<b>Expenditure (a+b)</b>					
a.	Expenditure other than financing		✓			
b.	Expenditure related to financial assets and liabilities (financing)					
	<i>i) repayment of government debt</i>				✓	(-) debt liabilities
	<i>ii) loans granted*</i>			✓		(+) fin. assets/loans
	<i>iii) equity injections*</i>			✓		(+) fin. assets/debt securities
	<i>iv) purchase of debt securities*</i>			✓		(+) fin. assets/equities

\* Only those operations should be treated as financing, when government acquires a recoverable claim, and in case of shares/equities government will receive a reasonable return (e.g. dividends). Otherwise the transaction should be treated as expense (capital transfer).

### b. Bridge table between GFS and main items of the current Budget Classification

GFS based classification	Presentation based on current Budget Classification			
<b>A. TOTAL CASH INFLOWS (1+2)</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>ВСЕГО Доходы</b>
<b>1. Revenue</b>				
Taxes	3	10	0	Налоги
Social contributions	2	20	0	ВЗНОСЫ/ОТЧИСЛЕНИЯ НА СОЦИАЛЬНЫЕ НУЖДЫ
Grants	3	30	0	ГРАНТЫ
Other current revenue	3	40	0	ДРУГИЕ ДОХОДЫ
Receipts from sale of non-financial assets	3	511	0	Поступления по нефинансовым активам
<b>2. Inflows from financing operations (a+b)*</b>				
a. Operations in financial assets	3	512	0	Поступления по транзакциям в финансовые активы
b. Operations in liabilities (if relevant)	3	520	0	Поступления по транзакциям в обязательства
<b>B. TOTAL CASH OUTFLOWS (1+2)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>ВСЕГО РАСХОДОВ</b>
<b>1. Expenditure</b>				
Compensation of employees	41	10	0	Заработная плата
	41	20	0	Взносы / отчисления на социальные нужды
Purchases of goods and services	42	0	0	РАСХОДЫ ПО ТОВАРАМ И УСЛУГАМ
Interest	44	0	0	ПРОЦЕНТЫ
Subsidies	45	0	0	СУБСИДИИ
Grants	46	0	0	ГРАНТЫ
	49	21	300	Расчеты и платежи между бюджетами
Social benefits	47	11	0	Пособия по социальному обеспечению в денежной форме
	47	11	400	Пенсии
	48	21	400	Стипендии
	47	0	0	СОЦИАЛЬНЫЕ ПОСОБИЯ
Other current expense	48	0	0	ДРУГИЕ РАСХОДЫ
Purchase of non-financial assets	43	0	0	РАСХОДЫ ПО ОСНОВНЫМ СРЕДСТВАМ
<b>2. Outflows from financing operations (a+b)*</b>	<b>49</b>	<b>0</b>	<b>0</b>	<b>РАСХОДЫ ПО ФИНАНСОВЫМ АКТИВАМ И ОБЯЗАТЕЛЬСТВАМ</b>
a. Acquisition of financial assets	49	10	0	Финансовый актив
b. Operations in liabilities	49	20	0	По обязательствам

\* Inflows and outflows from financing operations (transactions in financial assets and liabilities) should not be included in revenue and expenditure

## C. Proposed High-Level Aggregates of the Budget Classification

<b>A. TOTAL CASH INFLOWS (1+2)</b>
<b>A.1. Revenue</b>
Taxes
Social contributions
Grants
Other current revenue
Receipts from sale of non-financial assets
<b>A.2. Inflows from financing operations (a+b)</b>
a. Disposal and other reductions in financial assets
<i>Loans (e.g. receipts from repaid loans)</i>
<i>Shares and equities (e.g. privatization receipts)</i>
<i>Other financial assets (e.g. sale of debt securities)</i>
b. Incurrence of liabilities
<i>Debt instruments (receipts from borrowing)</i>
<b>B. TOTAL CASH OUTFLOWS (1+2)</b>
<b>B.1. Expenditure</b>
Compensation of employees
Purchases of goods and services
Interest
Subsidies
Grants
Social benefits
Other current expense
Purchase of non-financial assets
<b>B.2. Outflows from financing operations (a+b)</b>
a. Acquisition of financial assets
<i>Loans (granted)</i>
<i>Shares and equities (e.g. equity injections)</i>
<i>Other financial assets (e.g. purchase of debt securities)</i>
b. Repayment of liabilities
<i>Debt instruments (repayment of loans, debt securities)</i>
<b>C. NET CASH BALANCE (+/-) (A – B)</b>
<b>D. CASH DEFICIT (-) / SURPLUS (+) (A.1 – B.1)*</b>
<b>E. Net Cash Flows from Transactions in Financial Assets for Policy Purposes (B.2.a (Loans and Shares and Equities)– A.2.a (only Loans))</b>
<b>F. OVERALL CASH DEFICIT (-) / SURPLUS (+) after adjusting for policy lending (D – E)</b>

\*GFS definition of net lending/borrowing.

## Annex XII. Fiscal Indicators and Formats for Consolidated Financial Statements

### Fiscal Indicators and Consolidated Financial Statements

**Fiscal indicators are crucial for fiscal policy.** The scope and complexity of fiscal activities make it necessary to use summary indicators to help assess the impact of fiscal policy on macroeconomic stability, the economy's ability to withstand and bounce back from shocks (i.e. its resilience) and the sustainability of fiscal policy as a whole as well as key individual policies and programs. Most governments use fiscal indicators to define key targets against which fiscal performance is assessed, and many countries embody these targets in legally-binding fiscal rules and monitor compliance with them.

**A range of fiscal indicators could be used.** One of the advantages of accrual accounting is that it provides a wide range of indicators within an integrated framework. For example, *GFSM 2014* presents 39 fiscal indicators based on its statistical framework. While all fiscal indicators can be useful in the context of particular analyses, a few key indicators are usually selected to guide fiscal policy, as it influences the form and content of the *ex post* financial statements. The choice of indicators for Uzbekistan could be based on the desirability of:

- Measuring the impact of government activities on the rest of the economy. The overall balance could be the best indicator for this purpose; it covers the net policy lending of the UFRD, which is a key vehicle for providing credit stimulus to the economy;
- Maintaining continuity in cash-based measures. A cash overall balance that can be easily related to the cash balance currently used in Uzbekistan as a key fiscal indicator, could be used. This could be the *GFSM 2014* cash surplus/deficit, or an addition to it; and
- Assessing the government's balance sheet strength.

### Selected Fiscal Indicators

**The indicators in the table below could be used in Uzbekistan's budgeting framework.** To the extent practicable, these would be displayed on the face of the primary *ex post* financial statements. The selection of these indicators should not rule out the use of other indicators that could be useful, both in general and for specific analyses. The definitions of the indicators and the terms such as revenues, expenses, and other economic flows are as per *GFSM 2014*, except as otherwise indicated.



<b>Fiscal Indicators and Financial Statements</b>	<b>Definitions</b>	<b>Notes</b>
<b>Fiscal Indicators in the Statement of Financial Performance</b>		
Operating result - total <sup>1</sup>	Revenues minus expenses minus selected other economic flows. <sup>2</sup>	A key accounting concept and the most common indicator of financial performance.
Net lending/borrowing	Revenues minus expenses minus net investment in nonfinancial assets; Net lending/net borrowing is also equal to total financing.	A key <i>GFSM 2014</i> indicator of the impact of fiscal operations on the government net financial worth Net lending refers to a surplus which increases government's financial resources to finance other sectors of the economy, while net borrowing refers to the government deficit which has been financed by debt from other sectors of the economy.
Overall fiscal balance – total	Net lending/net borrowing adjusted through the rearrangement of transactions in financial assets that are for public policy purposes (also called policy lending).  Net policy lending and equity injections are added to expense. Privatization proceeds and repayments on policy lending are kept as financial transactions in calculating the overall fiscal balance.	For Uzbekistan, this measure likely provides an important indicator reflecting the government contribution and financing to foster industries and boost the economic growth, as it also includes policy lending of the UFRD. To be noted that the non-recoverable part of policy lending and equity injections which will not bring rate of return should be in any case treated as expense rather than a lending (transaction in financial assets) when calculating net lending/borrowing.
<b>Fiscal Indicators in the Statement of Cash Flows</b>		
GFS cash surplus/deficit	Net cash inflow from operating activities minus the net cash outflow from investment in nonfinancial assets. Cash surplus/cash deficit is equal to total cash flows from financing transactions.	Considered the cash equivalent of net lending/borrowing and a key measure of the impact of fiscal operations on its financial worth on a cash basis. It should be tracked in order to continue a consistent and long time series that is important from a macroeconomic perspective.

<sup>1</sup> Operating result is defined in accordance with accounting concepts. The main difference between it and the *GFSM 2014* indicator net operating balance is that under accounting concepts some other economic flows are taken into account in arriving at the operating result, as detailed in the next footnote.

<sup>2</sup> Net write-downs of assets (including bad and doubtful debts); assets recognized for the first time; Net gain/(loss) from the sale of assets; net foreign exchange gains/(losses); net swap interest received; other gains/(losses); amortization of non-produced assets; share of net result from associates and joint ventures accounted for using the equity method.

Fiscal Indicators and Financial Statements	Definitions	Notes
Overall cash surplus/deficit	GFS cash surplus/deficit adjusted through the rearrangement of transactions in financial assets and liabilities for public policy purposes (also called policy lending/borrowing).	It should be tracked in order to both maintain a consistent and long time series and communicate effectively with external parties, .
<b>Fiscal Indicators in the Statement of Financial Position</b>		
Sovereign Debt	Debt securities and loans	Corresponds to the existing definition of debt used by the government as a target (referred to as "government debt"). Maintaining this definition of debt is desirable, for continuity reasons.
Gross debt	Stock position in liabilities that require payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future. Includes all liabilities held in debt instruments (i.e., total liabilities excluding equity and investment fund shares and financial derivatives and employee stock options).	Adding this indicator and making it a target is desirable in order to, <i>inter alia</i> , track and control the impact of public-private partnership liabilities, which can be expected to grow substantially in the foreseeable future, which are currently not tracked in the context of fiscal policy. Corresponds to the <i>GFSM 2014</i> fiscal indicator of gross debt.
Net sovereign debt	Sovereign debt minus financial assets held in the most liquid financial instruments. In most countries, liquid assets would primarily comprise currency and deposits.	Maintaining this indicator is desirable for the same reasons as for the debt indicator. In particular, for Uzbekistan which has large foreign exchange deposits, net debt provides a more comprehensive indicator of the government's financial position and net balance sheet exposures.
Net Financial Worth	Net financial worth equals the stock position in financial assets minus stock position in liabilities	Net financial worth is a very important indicator especially because of the large amount of government sector lending, notably by the UFRD. Net financial worth presents the level of government savings to finance future activities and support the economy in particular in view of potential economic shocks.
Net Worth	Stock position in assets minus stock position in liabilities	This indicator takes account of non-financial assets and subsoil assets, the latter of which are significant in Uzbekistan.

**For completeness, the *ex post* financial statements should include a note disclosing these indicators.** The narrative accompanying the release of the financial statements to parliament and the public will highlight and explain the figures for these fiscal indicators.

## **Illustrative Fiscal Indicators and their Inter-relationships**

**Ex post financial statements underscore the integrated nature of the accrual accounting framework and fiscal indicators within it.** The key indicators in many cases are explicitly shown on the face of the primary statements, while others can be derived from the information contained in them. Some of the key relationships are as follows:

- The cash deficit is unchanged by accrual accounting and can be shown on the consolidated statement of cash flows as the cash balance. Showing this indicator in the financial statements is particularly important to provide reassurance to stakeholders that accrual accounting does not entail a loss of information;
- The *GFSM 2014* cash indicator, cash surplus/deficit, can also be shown on the consolidated statement of cash flows;
- The key *GFSM 2014* accrual indicator, net lending/borrowing, is shown on the face of the illustrative prospective consolidated statement of financial performance. It can be reconciled with the cash surplus/deficit. As net lending/borrowing is likely to receive prominence for macroeconomic analytical purposes, it should be shown clearly in the primary statements instead of in separate tables and/or requiring additional calculations and explanations;
- The overall fiscal balance, is also shown on the face of the illustrative prospective consolidated statement of financial performance;
- The operating result, which is a key accrual indicator under accounting standards such as IPSASs, can be reconciled with the overall cash balance; and
- The operating result can be reconciled with the change in net worth shown on the illustrative prospective statement of financial position. This is an important relationship between two key financial statements and provides a direct check on the accuracy of the statements.

## **Implications for Separate Financial Statements**

Some of fiscal indicators do not need to be shown in the separate financial statements of line ministries and budget organizations. However, the format of the separate financial statements should follow that of the consolidated financial statements to the maximum extent practicable, to facilitate their use and increase transparency. The format of the separate financial statements should be addressed once that of the consolidated financial statements has been determined.

## **Illustrative Consolidated Financial Statements**

The following tables show illustrative statements of financial performance, financial position, and cash flows, incorporating fiscal indicators discussed above.

<b>Consolidated Statement of Financial Performance (UZS billion)</b>	<b>2018</b>	<b>2019</b>
<b>Revenues</b>		
Taxation		
Sale of Goods & Services		
Interest Income		
Dividend Income		
Others		
<b>Total Revenues</b>		
<b>Expenses</b>		
Wages & salaries		
Employee pensions		
Depreciation & amortization		
Goods & services		
Interest expenses		
Current grants		
Subsidy expenses		
Personal benefits		
<b>Capital transfers</b>		
Mutually agreed write-downs		
Other capital grants		
<b>Total expenses</b>		
<b>Net operating balance</b>		
<b>Other economic flows - included in operating result</b>		
Net write-downs of assets (including bad and doubtful debts)		
Assets recognized for the first time		
Net gain/(loss) from the sale of assets		
Net foreign exchange gains/(losses)		
Other gains/(losses)		
Net result from associates and joint ventures		
<b>Total other economic flows - included in operating result</b>		
<b>Operating result</b>		
<b>Net operating balance</b>		
<b>Net acquisition of non-financial assets</b>		
Purchases of non-financial assets		
<i>less</i> sale of non-financial assets		
<i>less</i> Depreciation		
<i>plus</i> Changes in inventories		
<i>plus</i> Other movements in non-financial assets		
<b>Total net acquisition of non-financial assets</b>		
<b>Net lending/borrowing</b>		
Net cash flows from transactions in financial assets for policy purposes		
<b>Overall fiscal balance</b>		

<b>Consolidated Statement of Financial Position (UZS billion)</b>	<b>2018</b>	<b>2019</b>
<b>Assets</b>		
<b>Financial assets</b>		
Cash and deposits		
Advances paid		
Investments, loans and placements		
Other receivables		
<b>Equity Investments</b>		
Investments in other public sector entities		
Equity accounted investments		
Investments – shares		
<b>Total financial assets</b>		
<b>Non-financial assets</b>		
Land		
Buildings		
Plant, equipment and infrastructure		
Inventories		
Intangible assets		
Investment properties		
Biological assets		
Heritage and culture assets		
Assets held for sale		
Other non-financial assets		
<b>Total non-financial assets</b>		
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Interest-bearing liabilities</b>		
Deposits held		
Government securities		
Loans (including PPP concession projects)		
Other borrowing		
<b>Total interest-bearing liabilities</b>		
<b>Provisions and payables</b>		
Pension liabilities		
Other employee liabilities		
Supplier payables		
Personal benefits		
Subsidies		
Grants		
Other provisions and payables		
<b>Total provisions and payables</b>		
<b>Total liabilities</b>		
<b>Net worth</b>		
<b>Debt</b>		
<b>Gross debt</b>		
<b>Net debt</b>		
<b>Net financial wealth</b>		

<b>Consolidated Statement of Cash Flows (UZS)</b>	<b>2018</b>	<b>2019</b>
<b>OPERATING ACTIVITIES</b>		
<b>Receipts from operating activities</b>		
Taxes received		
Receipts from sale of goods and services		
Interest receipts		
Dividends and income tax equivalents		
Other receipts		
<b>Total receipts from operating activities</b>		
<b>Payments for operating activities</b>		
Payments for employees		
Payments for goods and services		
Grants and subsidies paid		
Interest paid		
Personal benefit payments		
Other payments		
<b>Total payments for operating activities</b>		
<b>Net cash flows from operating activities</b>		
<b>INVESTING ACTIVITIES</b>		
<b>Investments in nonfinancial assets</b>		
<b>Proceeds on disposal of nonfinancial assets</b>		
<b>Total proceeds on disposal of nonfinancial assets</b>		
<b>Net Investments in nonfinancial assets</b>		
Net cash flows from transactions in financial assets for policy purposes		
Net cash flows from transactions in financial assets for liquidity purposes		
<b>Net cash flows from investing activities</b>		
<b>FINANCING ACTIVITIES</b>		
<b>Receipts</b>		
Borrowing		
Other financing		
Total receipts from financing activities		
<b>Payments</b>		
Repayment of Debt		
Other Financing		
Total payments for financing activities		
<b>Net cash flows from financing activities</b>		
<b>Net increase /decrease in cash held</b>		
<b>Cash at the beginning of the year</b>		
<b>Cash at the end of the year</b>		
<b>Key fiscal indicators</b>		
<b>Net cash flows from operating activities &amp; transactions in non-financial assets= GFS cash surplus(+)/deficit(-)</b>		
Net cash flows from transactions in financial assets for policy purposes		
<b>Overall cash surplus(+)/deficit(-)</b>		

## **Annex XIII. Parliamentary Appropriation System Envisaged by the PFM Reform Strategy 2007–18**

The *PFM Reform Strategy 2007-2018*, which was formally approved by the Minister of Finance, envisages amendments to the budget code for a parliamentary appropriation process that covers parliamentary submission, deliberation, and approval, and incorporates:

- the application of appropriation only to expenditures and not to revenues;
- appropriation on a cash basis;
- the separation between the release of cash and the release of budgetary authority derived from parliamentary appropriation;
- unused appropriations lapsing at year-end;
- the definition of appropriation according to the organizational, economic, fund, and program (or functional) classifications via an annual budget law;
- the application of the appropriation system to the republican, oblast, and rayon/city budgets (including those of the Republic of Karakalpakstan and Tashkent City) as currently defined, plus on a progressive basis the budgets of STFs and OBAs of budget organizations, i.e., the general government sector;
- permission for government entities to under-spend appropriations, but not to over-spend appropriations except to the extent and in the manner specifically authorized by the BSL;
- permission for the government to reduce parliamentary appropriations of expenditure (other than of OBAs up to a certain limit (possibly 10 percent) in aggregate in the event that revenue shortfalls threatened the emergence of expenditure arrears; and
- permission for the government to transfer up to a certain limit (possibly 10 percent) of one parliamentary appropriation item to another.

## Annex XIV. Illustrative Appropriation Format

### Appropriations of Expenditure on the Ministry of X for 2020

<b>Consolidated</b>	<b>UZS billion</b>
Wages and Salaries	
Social Contributions	
Use of Goods and Services	
Interest	
Subsidies	
Grants	
Social Benefits	
Capital Transfers to SOEs	
Other Current Expenditures	
Acquisition of Fixed Assets	
Acquisition of Other Nonfinancial Assets	
Loans Provided for Policy Purposes	
Equity Provided for Policy Purposes	

### **Consolidated Development Funds of Budget Organizations under the Ministry of X**

Wages and Salaries	
Social Contributions	
Use of Goods and Services	
Interest	
Subsidies	
Grants	
Social Benefits	
Capital Transfers to SOEs	
Other Current Expenditures	
Acquisition of Fixed Assets	
Acquisition of Other Nonfinancial Assets	
Loans Provided for Policy Purposes	
Equity Provided for Policy Purposes	

### **Fund A under the Ministry of X**

Wages and Salaries	
Social Contributions	
Use of Goods and Services	
Interest	
Subsidies	
Grants	
Social Benefits	
Capital Transfers to SOEs	
Other Current Expenditures	
Acquisition of Fixed Assets	
Acquisition of Other Nonfinancial Assets	
Loans Provided for Policy Purposes	
Equity Provided for Policy Purposes	



**Presidential Program B under the Ministry of X**

Wages and Salaries
Social Contributions
Use of Goods and Services
Interest
Subsidies
Grants
Social Benefits
Capital Transfers to SOEs
Other Current Expenditures
Acquisition of Fixed Assets
Acquisition of Other Nonfinancial Assets
Loans Provided for Policy Purposes
Equity Provided for Policy Purposes

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