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REPUBLIC OF UZBEKISTAN

FISCAL TRANSPARENCY EVALUATION

May 2019

This Fiscal Transparency Evaluation paper on the Republic of Uzbekistan was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in June 2018.

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FISCAL AFFAIRS DEPARTMENT

Republic of Uzbekistan

Fiscal Transparency Evaluation

Amanda Sayegh, Matt Crooke, Viera Karolova, Fazeer Sheik Rahim, and John Zohrab

Technical Report | June 2018

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F I S C A L   A F F A I R S   D E P A R T M E N T

Republic of Uzbekistan
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GLOSSARY

CBU	Central Bank of the Republic of Uzbekistan
CMSA	Centre for Management of State Assets
COA	Chamber of Accounts
COM	Cabinet of Ministers
Code	IMF Fiscal Transparency Code 2014
DIF	Deposit Insurance Fund
EBFs	Extra-budgetary Funds
UFRD	Uzbekistan Fund for Reconstruction and Development
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISAs	International Standards of Auditing
JSC	Joint Stock Company
MoF	Ministry of Finance
MTBF	Medium-term Budget Framework
PC	Public Corporation
PPP	Public-Private Partnership
SCS	State Committee of the Republic of Uzbekistan on Statistics
SSF	Social Security Funds (Pension Fund and Employment Fund)
STF	State Targeted Funds (a group of four EBFs and the two SSFs)

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced

LEVEL OF IMPORTANCE	RATING		
	High	Medium	Low

PREFACE

An International Monetary Fund (IMF) staff team visited Tashkent from June 11–25, 2018 to conduct a Fiscal Transparency Evaluation based on the IMF's Fiscal Transparency Code. The mission comprised Amanda Sayegh (head) and Fazeer Rahim 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). A preliminary visit to prepare for the evaluation was conducted by Amanda Sayegh during May 16-18, 2018.

In the conduct of the evaluation, the mission met with: First Deputy Minister of Finance Mr. Akhadbek Khaydarov; Head of the Main State Budget Department, Mr. Dilshod Sultanov; First Deputy Head of the Budget Department, Mr. Jamshid Abruev; Head of the Methodology Department, Mr. Ismonjon Mamadjanov; Chief Accountant, Mr. Ulugbek Rustamov; and other senior officials from the Budget Department, Department on Foreign Currency Assets and Liabilities; Department of Revenue Policy, Main Department for Finance and Tariff Regulation of Basic Industrial Sectors, and Main Department for Transportation and Communication Services.

The mission also met with the First Deputy Minister of Economy, Mr. Mubin Mirzaev and senior officials from the Ministry of Economy as well as senior officials from the: Central Bank of the Republic of Uzbekistan; Chamber of Accounts; State Tax Committee; State Customs Committee, National Agency for Project Management Under the President of Uzbekistan; State Statistics Committee; State Committee for Investments; State Committee for the Promotion of Privatized Enterprises and Development of Competition and Center for Management of State Assets; State Committee on Mineral Resources and Geology; State Committee on Ecology and Environmental Protection; Uzbekistan Fund for Reconstruction and Development; Pension Fund; and Tashkent City Administration. The mission also met with representatives from Uzbekneftagaz, O'zsanaotqurilishbank, United Nations Development Program (UNDP) and Asia Development Bank.

The evaluation is based on information available at the time of the visit in May 2018. The findings and recommendations of the report represent the views and advice of the IMF team and do not necessarily reflect those of the authorities. Unless otherwise specified, the data presented in text, figures and tables in the report are estimates made by the IMF team and not official estimates of the government of Uzbekistan.

The IMF team would like to thank the authorities and other officials for their excellent collaboration in the conduct of this evaluation, in particular Mr. Dilshod Sultanov. The mission would also like to thank Ms. Galina Kostina for her substantive input, research and ongoing support provided to the mission. Finally, the mission would like to express its appreciation to Mr. Alexander Bogdanov, Mr. Sherzod Adbinabiev, and Ms. Gulrukh Rakhmatullaeva for the interpretation and translation services provided during the mission.

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 and implemented, and some good progress already made. More information on the use of public funds is now being disclosed. Concept notes have also been prepared to strengthen public financial management, fiscal reporting and to support the introduction of a medium-term budget framework. Successful implementation of these reforms will result in meaningful gains in fiscal transparency, which can help underpin credibility and confidence in the management of public funds and enhance transparency, accountability, and public engagement.

This assessment of fiscal transparency practices has been undertaken to support the government's efforts to increase transparency by identifying priority areas for reform. An evaluation of practices against the IMF's Fiscal Transparency Code (the Code) finds that tangible gains have been made over 2017 and 2018. For the first time, the draft budget and detailed budget estimates were made available to the public, along with detailed reports on its execution and audit. Government external debt and guaranteed debt statistics were also disclosed. Furthermore, publication of government finance statistics now means that around 90 percent of general government activity is reported. Still, several gaps remain. Assessed against the standards of the Code, Uzbekistan meets at least the basic standard of practice on 16 of 36 principles (Table 0.1).

In several areas where Uzbekistan's practices do not currently meet the basic standard required under the Code, quick progress can be made. Making available to the public information that is already collected and used for internal management purposes, would improve transparency in seven of the areas that do not currently meet basic practice. Successful implementation of reform plans, some of which will take shape ahead of the 2019 Budget, will result in further gains.

This evaluation also highlights several important areas where improvements can be made.

- Although the budget and fiscal reports disclose information on some extra-budgetary funds, not all are captured, and a large share of fiscal activity is channeled through off-budget accounts of budgetary organizations. As a result, general government expenditure was understated by around 3 percent of GDP in 2016. Some fiscal flows, including donor-financed activities and earmarked taxes, are also not captured in the state budget, nor reflected in ex post reports.
- Publication of external debt data has been an important step, but sizeable asset holdings and non-debt liabilities, some of which are reflected in the financial statements compiled by budgetary organizations, are not published in consolidated fiscal reports.

- The government provides an array of tax exemptions and privileges to certain businesses and sectors, and taxes some goods and services at lower rates than others. The revenue foregone from these tax expenditures, which is significant, is estimated but not disclosed.
- While more information on public finances is disclosed, there are differences in presentation across the various reports. For 2017, revenues and expenditures for the state budget sector differed by 9 percent of GDP between the end-year report and government finance statistics. Explaining the sources of these differences can enhance public understanding of how public funds are used.
- The budget lacks a forward-looking policy focus—forecasts are presented for the budget year only and are not guided by clear and precise fiscal objectives, while investment planning is only partially incorporated.
- There is limited analysis and disclosure of the main sources of fiscal risks to which the public finances are exposed, despite these being sizeable—explicit and implicit sources of fiscal risks are in the order of 60 percent of GDP.

Based on these findings, the evaluation provides several recommendations to enhance fiscal transparency in Uzbekistan.

First, improve the comprehensiveness, quality, comparability, and integrity of fiscal reports, including by:

- Expanding the coverage of statistical reports, to include the activities of all institutional units that should be classified as part of the general government, including all extrabudgetary funds and the off-budget accounts of budgetary organizations;
- Publishing more detailed information on government liabilities and assets, focusing initially on development of a financial balance sheet for the general government;
- Publishing an annual statement on the revenues foregone from tax expenditures; and
- Providing more detailed breakdowns of spending in fiscal reports, improving budget classifications to bring them closer to international guidelines, and explaining the main differences in fiscal aggregates across statistical and fiscal reports.

Second, improve the comprehensiveness, quality, and forward-looking orientation of the budget, including by:

- Bringing off-budget accounts of budgetary organizations on budget and presenting, as part of the budget documentation, consolidated fiscal aggregates for the state budget and extra-budgetary funds combined;
- Publishing and clearly explaining the medium-term macroeconomic and fiscal forecasts underpinning the budget and presenting budget year spending allocations by ministry as well as fiscal obligations of publicly funded major infrastructure projects; and

- Strengthening legislative oversight of the state budget with a view to reducing the extent to which in-year changes can be made to aggregate expenditures without prior parliamentary approval.

Third, improve analysis and disclosure of risks to the public finances, including by:

- Publishing an annual statement on fiscal risks;
- Restricting criteria for drawing on budget reserves and ensuring there is more transparent reporting on the purposes for which it is used; and
- Enhancing financial oversight of public corporations by conducting regular assessments of potential risks stemming from this sector and developing strategies to mitigate them.

Implementing these recommendations will enable Uzbekistan to provide a more complete and informative account of its fiscal position, prospects and risks. As an illustration, this evaluation provides an overview of public sector activity, based on 2016 data. It shows that public sector revenues and expenditures accounted for 41.7 and 39.6 percent of GDP respectively and that the public sector has an extensive balance sheet with assets amounting to an estimated 406 percent of GDP (reflecting large mineral reserves and financial assets holdings), and liabilities of 72 percent of GDP. Overall, Uzbekistan's public sector net worth (estimated at around 334 percent of GDP) and net financial worth (estimated at around 50 percent of GDP) compares favorably to other countries.

The remainder of this report provides a more detailed evaluation of Uzbekistan's fiscal transparency practices and recommended reform priorities. It is organized as follows:

- Chapter I evaluates the coverage, timeliness, quality, and integrity of fiscal reporting;
- Chapter II evaluates the comprehensiveness, orderliness, policy orientation, and credibility of fiscal forecasting and budgeting; and
- Chapter III evaluates arrangements for disclosure and management of fiscal risks, and coordination across the public sector.

Table 0.1. Uzbekistan: Summary Assessment Against the Fiscal Transparency Code

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

Table 0.2. Uzbekistan: Public Sector Financial Overview, 2016
(Percent of GDP)

	General Government					Public Corporations			
	Central Government	Social Security Funds	Local Governments	Consolidation Gen. Govt.	Consolidated General Government	Nonfinancial	Financial	Eliminations for Consolidation	Public Sector
Transactions									
Revenue	17.8	7.4	11.1	-2.9	33.5	6.2	2.7	-0.7	41.7
Expenditure	16.5	7.3	10.8	-2.9	31.7	6.2	2.3	-0.7	39.6
Expense	14.0	7.3	10.1	-2.9	28.4	5.7	2.3	-0.7	35.8
Investment in Non-financial assets	2.6	0.0	0.7	0.0	3.3	0.5	0.0	0.0	3.8
Gross operating balance	**3.9**	**0.0**	**1.0**	**0.0**	**4.9**	**0.5**	**0.4**	**0.0**	**5.8**
Net lending/borrowing	**1.3**	**0.1**	**0.3**	**0.0**	**1.8**	**0.0**	**0.4**	**0.0**	**2.2**
Stocks									
Assets	**336.4**	**0.0**	**7.6**	**-0.1**	**343.9**	**30.3**	**80.7**	**-48.6**	**406.3**
Nonfinancial	267.9	0.0	7.5	0.0	275.4	7.9	0.6	0.0	283.9
Mineral resources	258.0				258.0				258.0
Financial	68.5	0.0	0.1	-0.1	68.5	22.4	80.1	-48.6	122.4
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0	20.5	0.0	20.5
Currency and deposits	29.9			0.0	29.9	0.8	29.5	-31.7	28.5
Debt securities and loans	16.7	0.0	0.0	0.0	16.7	1.8	25.4	-0.8	43.1
Equity	21.5	0.0	0.0	0.0	21.5	10.1	0.2	-16.0	15.8
Accounts receivable	0.4	0.0	0.1	-0.1	0.4	9.7	4.4	0.0	14.5
Liabilities	**8.8**	**0.0**	**0.9**	**-0.1**	**9.6**	**30.3**	**80.7**	**-48.6**	**72.0**
Other accounts payable	1.6	0.0	0.9	-0.1	2.4	7.7	4.2	0.0	14.3
Liabilities other than equity	8.8	0.0	0.9	-0.1	9.6	17.1	74.9	-32.6	69.0
Debt securities and loans	7.2	0.0	0.0	0.0	7.2	8.3	16.4	-0.8	31.1
Accounts payable	1.6	0.0	0.9	-0.1	2.4	7.7	4.2	0.0	14.3
Equity	0.0	0.0	0.0	0.0	0.0	13.3	5.8	-16.0	3.1
Net worth	**327.6**	**0.0**	**6.7**	**0.0**	**334.3**	**0.0**	**0.0**	**0.0**	**334.3**
Net financial worth	**59.7**	**0.0**	**-0.8**	**0.0**	**58.9**	**-7.9**	**-0.6**	**0.0**	**50.4**

Source: Government Finance Statistics, External State Debt Report, Central Bank of Uzbekistan Monetary and Financial Statistics, Balance sheet of central and subnational budgetary organizations, Annual Financial Statements of 8 largest public nonfinancial corporations, Central Bank, Deposit Insurance Fund, and 10 state-owned banks, Uzbekistan Fund for Reconstruction and Development, Sate Assets Management Committee, Statistical Committee, MoF, and IMF staff estimates.

Notes: Central Government (CG) includes consolidated data for the budgetary central government, off-budget accounts, and extra-budgetary organizations; Deposits of social security funds and local governments are included in the CG data; Consolidation of loans to public corporations (PCs) is limited to the PCs aggregated in the Public Sector Overview; Financial corporations also include Central Bank. Expenditures financed by donor grants, not reported in GFS, are not included in the above aggregates, as data for 2016 was not available at the time of the evaluation.

I. FISCAL REPORTING

1. **Fiscal reports should provide a comprehensive, timely, reliable, comparable, and accessible summary of the government's financial performance, financial position, and cash flows.** This chapter assesses the quality of Uzbekistan's fiscal reporting practices against the standards set by the IMF's Fiscal Transparency Code for the following dimensions:

- Coverage of public sector institutions, stocks, and flows;
- Frequency and timeliness of reporting;
- Quality, accessibility, and comparability of fiscal reports; and
- Reliability and integrity of reported fiscal data.

2. Over the past year or so, the government has made a concerted effort to increase transparency and make more information on public finances available to the public. In 2018, several reports were published for the first time, including detailed quarterly Government Finance Statistics (GFS) reports, information on external debt and external debt guarantees, and the audit conclusion and report on the execution of the state budget for 2017. Uzbekistan's main summary fiscal reports, presented in Table 1.1. comprise:

- **Quarterly statistical reports on central and general government operations,** which present cash revenues and expenditures by economic classification, as well as financing transactions for the central government, and cash revenues by tax type and expenditures by national functional classification for general government operations. The general government report also shows aggregate revenues and expenditures of each of the State Targeted Funds (STFs) and the Uzbekistan Fund for Reconstruction and Development (UFRD);[1]
- **Detailed quarterly GFS reports for general government,** which present cash revenues, expenditures and financing for the budgetary central and subnational governments, social security funds (SSFs), and some EBFs with detailed breakdowns by economic classification and by spending function.[2]
- **Preliminary quarterly and annual state budget execution reports,** which present revenues by tax type, and expenditure by function for the state budget (central and regional governments);
- **Final quarterly and annual state budget execution reports,** which provide additional information on state budget execution, including a discussion of substantive developments and expenditure and revenue execution of the STFs;
- **Annual Audit report on Execution of the State Budget,** which presents the conclusion of the Chamber of Accounts (COA) on the reliability of the state budget execution report, along with information on state budget revenues by tax type, aggregate expenditures and a more detailed breakdown of social expenditures, and the revenue and expenditure execution of the STFs; and
- **Report on external debt,** which present the stock of debt, disbursements, repayments and debt servicing costs of multilateral and bilateral loans contracted by the state, as well as government guaranteed debt.

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[1] The STFs as defined in the Budget Code include: the Schools and Hospitals Fund, Land Reclamation Fund, the Road Fund, the Privatization Fund, the Pension Fund, and the Employment Fund.

[2] EBFs covered in GFS reports include the funds listed as STFs except for the Pension and Employment funds, as well as the UFRD, DIF, the Fund for Children's Sport, and Aral Sea Fund. The Pension Fund and Employment Fund are classified as social security funds in GFS reports.

Table 1.1. Uzbekistan: List of Fiscal Reports

REPORT	Author	COVERAGE			ACCOUNTING		PUBLICATION	
		Inst.	Flows	Stocks	Basis	Class.	Freq.	Lag
IN-YEAR REPORTS								
Preliminary quarterly report on the execution of the State Budget	MoF	BCG	R, E, Fin*	np	Cash	Nat.	Qtrly	25d
Final report on the execution of the State Budget	MoF	BCG	R, E, Fin*	np	Cash	Nat.	Qtrly	45d
Statistics report on central government operations	MoF	CG	R, E, Fin	np	Cash	Nat.	Qtrly	45d
Statistics report on general government operations	MoF	GG	R, E	np	Cash	Nat.	Qtrly	45d
Quarterly Government Financial Statistics (GFS)	MoF	GG	R, E, Fin	np	Cash	Nat.	Qtrly	3m
YEAR-END REPORTS								
Preliminary Annual report on the execution of the State Budget	MoF	BGG	R, E, Fin*	np	Cash	Nat.	Annual	40d
Final Annual execution report on the State Budget and State Targeted Funds	MoF	BGG, STFs	R, E, Fin*	np	Cash	Nat.	Annual	6m
Audit report on execution report on the State Budget and State Targeted Funds	CoA	BGG, STFs	R, E, Fin*	np	Cash	Nat.	Annual	6m
Government Financial Statistics (Published in the GFS Yearbook)	MoF	GG	R, E, Fin	np	Cash	GFSM2014	Annual	-
Report on External Debt of the Republic of Uzbekistan	MoF	GG	na	Debt	Cash	Nat.	Annual	5m

Note: MoF: Ministry of Finance; COA: BCG: Budgetary Central Government; BGG: Budgetary General Government; GG: General Government; STF: State Targeted Funds; R: Revenue; E: Expenditure; Fin: Financing; np: not published.

1.1. Coverage of Fiscal Reports

1.1.1. Coverage of Institutions (Basic)

3. **Uzbekistan's public sector comprises at least 2,400 separate units of various legal forms.** As shown in Table 1.2, these are distributed in the following subsectors:

- **Budgetary central government,** which is comprised of 40 central government units, including the central government administration and ministries, including their off-budget accounts; and nine extra-budgetary funds (EBFs). The largest EBFs include: the Uzbekistan Fund of Reconstruction and Development (UFRD); the Road Fund, the Education Fund, the Book Fund and Aral Sea Funds which are not yet captured in fiscal reports, and the Deposit Insurance Fund (DIF), which is not included in the fiscal reports but should be classified inside the general government boundary.
- **Social security funds (SSFs)**—the Pension Fund and Employment Promotion Fund.
- **Subnational government,** which is comprised of 214 units including the Autonomous Republic of Karakalpakstan, 12 provinces, and 201 districts and towns.

- **Public nonfinancial corporations,** which comprise 2,107 corporations, of which 1500 unitary enterprises, 107 joint stock companies, and 500 limited liability companies controlled by central and subnational government units. The sector classification of unitary enterprises should be reviewed and include into the government sector when relevant as they seem to operate on a non-market basis as by definition their sole customer is the government which covers all their expenditure.
- **Public financial corporations,** which comprise the Central Bank of Uzbekistan (CBU), 11 state-owned banks, and the Cumulative Pension Fund administered by the state-owned People's Bank, and a number of state-owned insurance companies.[3]

Table 1.2. Uzbekistan: Public Sector Institutions and Finances, 2016
(Percent of GDP, unless otherwise stated)

	Number of entities	Revenue	Expenditure	Balance	Intra-PS expenditure	Net expenditure	Net expenditure (Percent)
Public Sector	2,413	41.7	39.6	2.2		39.6	100.0
General government	294	33.5	31.7	1.8	0.6	31.1	78.6
Central government	40	17.8	16.5	1.3	3.5	13.0	32.8
Budgetary Central government	29	15.0	14.5	0.5	4.2	10.3	26.0
EBFs	9	3.5	2.7	0.8		2.7	6.8
Social Security Funds	2	7.4	7.3	0.1		7.3	18.5
Local governments	214	11.1	10.8	0.3		10.8	27.3
Nonfinancial public corporations	2,107	6.2	6.2	0.0	0.1	6.1	15.5
Financial public corporations, inlc. CB	12	2.7	2.3	0.4	0.0	2.3	5.9

Source: Authorities, GFS reports, Financial Statements of Public Corporations, and IMF staff Estimates.
Note: Data for the nonfinancial PCs is for the eight largest enterprises.

4. Uzbekistan's public sector expenditures accounted for 39.6 percent of GDP in 2016. Table 1.2 summarizes the distribution of public resources across the different subsectors of the public sector and shows that:

- **General government** expenditure accounted for 31 percent of GDP, of which around 42 percent was spent by the central government, 23 percent by SSFs, and 35 percent was spent through local governments; and
- **Public corporation** expenditures accounted for 8.5 percent of GDP, of which 70 percent was spent by nonfinancial corporations.

5. Although fiscal reports cover a substantial share of general government activity, coverage is incomplete, and no report provides a complete picture of public sector activity.

[3] The Cumulative Pension Fund is classified by the authorities as a public financial corporation. While it is undoubtedly a public-sector unit, questions remain on its classification as a general government unit or as a public financial corporation. The application of statistical guidance on the delineation of public units engaged in financial activities and general government units is not well defined, but the lack of autonomy of decision and extensive control and dependence on the government including guarantees may indicate that the Cumulative Pension Fund is not an institutional unit and thus should be classified within the government sector applying GFSM 2014 principles.

The most comprehensive coverage of institutions is presented in the general government GFS reports. These reports already contain several of the elements required to meet good practice under the Code, and present data for the budgetary central government and subnational governments, social security funds, and central government extrabudgetary funds, which combined cover 90 percent of general government activity. However, there are some material gaps. The reports do not capture the activities of three EBFs (the Book Fund, Children Fund, and Aral Sea Fund), the DIF, and PCs that should be classified as extrabudgetary funds on the basis of international statistical standards (GFSM 2014).[4] In addition, the reports do not cover operations of the central budgetary organizations' off-budget accounts (see principle 1.1.3). Together, their net expenditures accounted for 3 percent of GDP (Figure 1.1). There is no reporting on the consolidated public sector, with PCs representing the largest gap.

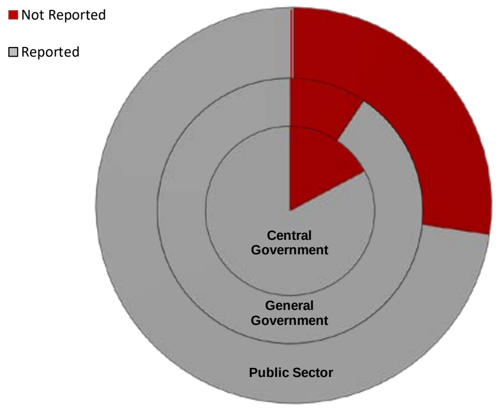
6. Expanding the institutional coverage of fiscal reports to the entire public sector would have a material impact on revenue and expenditure, but only a modest impact on the budget balance. Including and consolidating missing extrabudgetary organizations under the control of government and off-budget accounts would add around 2.9 percent of GDP to consolidated revenue and 3 percent of GDP to consolidated expenditure in 2016, but have only a slight effect on the reported surplus for the consolidated general government sector of -0.1 percent of GDP, reducing it to 1.8 percent of GDP.[5] Expanding the coverage to the public sector by including PCs, would add a further 9 percent of GDP to revenue and 8.6 percent of GDP to expenditure, increasing the public sector surplus by 0.4 percent of GDP, to 2.2 percent of GDP.

[4] There are around 1,500 state-owned unitary entities, a large number of which, would likely be classified as general government units in accordance with international standards, as they were established as a kind of ancillary units to serve the government and provide services at economically insignificant prices the government is the sole client and finances their costs, the government is the economic owner of assets which they use in their production activities and they have no or limited autonomy of decision to be considered institutional units. At the time of this evaluation, data was not available on these entities, to appropriately assess their classification.

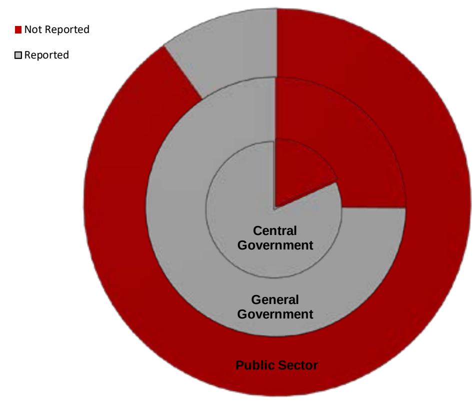
[5] The remaining difference between the surplus reported in GFS and in the report is due to the exclusion of holding gains from the revenue of two EBFs which accounted for 3 percent of GDP in 2016 (Section 1.1.3)

Figure 1.1. Coverage of Public Sector Institutions in Fiscal Reports, 2016
(Percent of expenditure at each level)

Public Sector Expenditures



Public Sector Liabilities



Source: Uzbekistan authorities and IMF staff estimates.
Note: "Not Reported" refers to expenditures of units not consolidated in summary fiscal reports.

7. Expanding the institutional coverage will have more significant impact on the size of the public sector liabilities. Including unreported liabilities, mainly of PC, will increase public sector liabilities by 64.8 percent of GDP, to 72 percent of GDP (see principle 1.1.2).

1.1.2. Coverage of Stocks (Not Met)

8. Information on the state budget debt is published, but no data is disclosed on financial assets and other liabilities. The report on external debt of the Republic of Uzbekistan provides details on stocks, disbursements, and repayments of multilateral and bilateral loans contracted by the state budget. At end-2016, these amounted to 7.2 percent of GDP, of which a major part (5.2 percent of GDP) is on-lent to PCs.[6] However, no report provides information on government deposits or other financial assets, non-debt liabilities or nonfinancial assets. Inclusion of government 'currency and deposit holdings', information on which is readily available, in the debt statistics and fiscal reports would improve the assessment against this principle from not met to basic level of coverage.

9. Although the coverage of general government debt is broad, gaps in reporting of total public sector liabilities and assets are significant (Figure 1.1). The main gaps reflect the following:

[6] At the time of the evaluation, the government did not have any outstanding domestic debt. At end 2017, reported external debt was 8.8 percent of GDP, of which 6.6 percent was on-lent to PCs. The on-lending is reported as government debt and at the same time as claims (assets) towards PCs and liabilities of PCs which should be consolidated within the public sector. Since this report doesn't cover all PCs, only the related part of on-lending has been consolidated in the public sector.

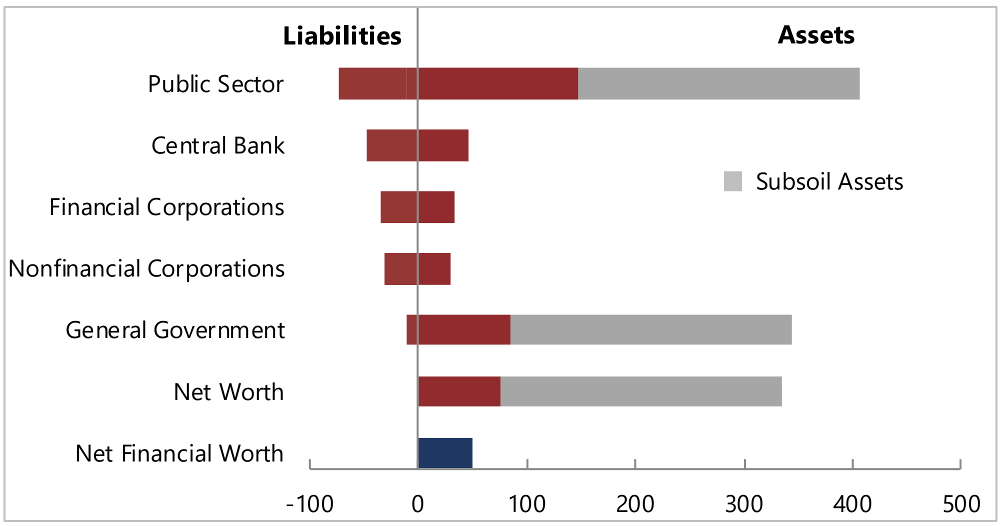
- **Cash and deposits** are not published in fiscal reports, but are compiled by the CBU, and amounted to 29.9 percent of GDP at end-2016, the bulk of which are foreign currency deposits of the UFRD, which are managed by the CBU on their behalf.
- **Other accounts receivable and payable,** accounted for 0.5 and 2.5 percent of GDP respectively for general government at end-2016. While data is not published, state and sub-national government budgetary organizations compile balance sheets which include information on other accounts receivables and payables, and are submitted to, and aggregated by, the Ministry of Finance (MoF). Such data could be used as the basis to further improve disclosure of balance sheet information.
- **Pension liabilities,** from the employment-related pension schemes for special groups of government employees (police and army) are not reported and information on their size was unavailable at the time of the evaluation.
- **Nonfinancial assets** are not published, but information on a sub-set of nonfinancial assets are included in the balance sheets of budgetary organizations submitted to the MoF, and amounted to 9.9 percent of GDP at end-2016. However, this does not include state-owned infrastructure assets and so is likely to be an under-statement of general government non-financial assets.
- **Subsoil assets** present the major component of the Uzbekistan's net worth. The estimated value of resources in oil, gas and minerals are around 258 percent of GDP, although significant uncertainty surrounds these estimates (see principle 3.2.6).
- **Assets and liabilities of public corporations** are available in the financial statements of individual companies, which are published by joint stock companies (JSCs), but not unitary enterprises. Based on available financial statements for eight large JSCs and twelve financial corporations (including the CBU), public corporations' assets accounted for 110 percent of GDP and outstanding liabilities (other than equity) for 91.9 percent of GDP, at end-2016.[7] The majority of financial assets and liabilities are held by public financial corporations and the CBU, which accounted for 80.1 and 80.7 percent of GDP respectively.

10. Addressing these gaps and expanding the balance sheet to the public sector would provide a more comprehensive view of public finances. As shown in Table 0.2 and Figure 1.2, consolidated public sector asset holdings and liabilities are estimated to have been around 406.3 percent of GDP and 72 percent of GDP, respectively, at end-2016. Public sector net worth and net financial worth are estimated to have been 334.3 percent of GDP and 50.4 percent of GDP. The main components include:

[7] The eight JSCs include: Uzbekenro, Uzbeneftegaz, Uzbek railways, Uzbektelecom, Uzavtosanoat, Almal GMK, Savonokombinta, and GM venture. The financial corporations include the CBU, ten state-owned banks including the Cumulative Pension Fund, and one insurance company

- **Nonfinancial assets** of 283.9 percent of GDP, which primarily comprises mineral resources.
- **Financial assets** of 122.4 percent of GDP, which comprise mainly assets of public financial corporations including the CBU, UFRD deposits and loans, government on-lending and other loans for infrastructure projects, and holdings of equities of public non-financial corporations in their subsidiary companies. Most financial assets are in foreign currency reserves and monetary gold (40 percent of total financial assets) and in loans and securities (35 percent of total financial assets).
- **Liabilities** other than equity of 69 percent of GDP, which primarily comprise the debt of public financial corporations including the CBU in the form of deposits and loans.

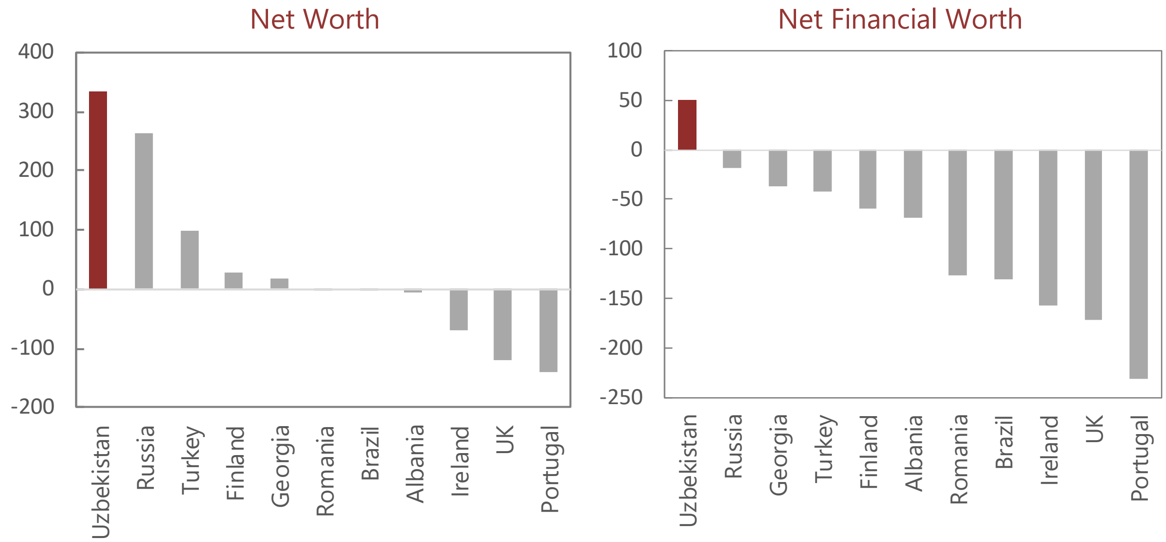
Figure 1.2. Public Sector Balance Sheet, 2016
(Percent of GDP)



Source: IMF staff estimates, Uzbekistan authorities.
Note: Net Worth and Net Financial Worth are consolidated at the level of the public sector, while individual subsectors are consolidated within the sector, but not between.

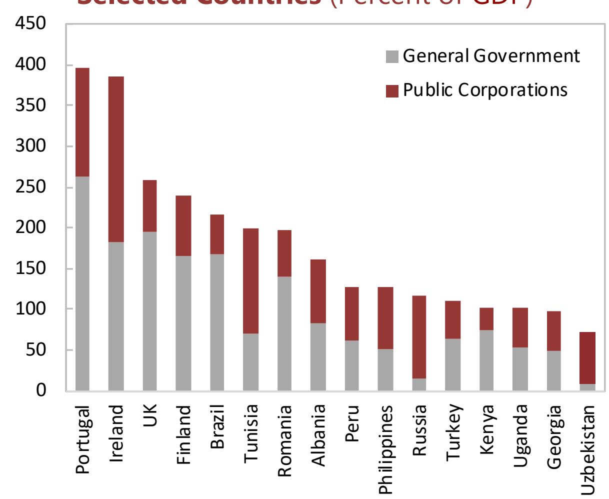
11. **Uzbekistan's net worth and net financial worth compares favorably to other countries (Figure 1.3).** This largely reflects its low gross financial liabilities and the size of large untapped mineral resources (Figures 1.4 and 1.5). That said, gross liabilities for Uzbekistan are underestimated due to unavailability of information of estimates related to explicit pension liabilities for special categories of government employees. As most pensions are paid from the pay-as-you-go social security scheme, which constitute implicit pension obligations, the long-term costs of pensions are reflected as long-term fiscal pressures rather than as balance sheet liabilities.

Figure 1.3. Public Sector Net Worth and Net Financial Worth in Selected Countries
(Percent of GDP)



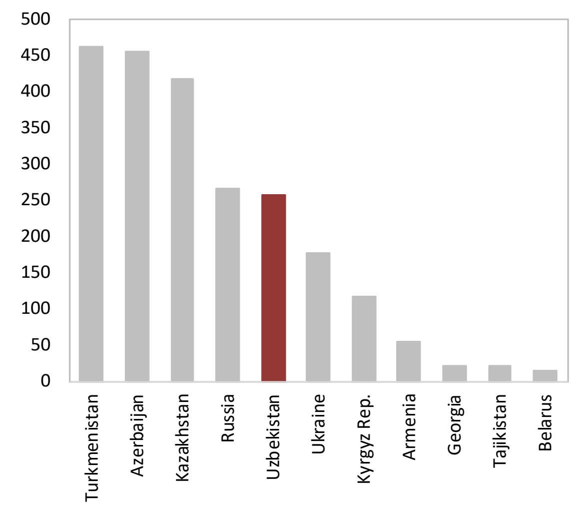
Source: IMF staff estimates, Fiscal Transparency Evaluations.

Figure 1.4. Public Sector Gross Liabilities in Selected Countries (Percent of GDP)



Source: IMF staff estimates, National Financial Statements for countries (excluding PPP liabilities).

Figure 1.5. Value of Subsoil Assets in Selected Countries (Percent of GDP)



Source: World Bank Changing Wealth of Nations, 2018.

1.1.3. Coverage of Flows (Not Met)

12. Fiscal reports, which are compiled on a cash basis, include the majority of cash revenues, expenditures, and financing for the general government, but omit operations passing through off-budget accounts and some EBFs (Box 1.1). Budgetary organizations hold around 200 off-budget accounts which are not captured in published fiscal reports. Individual accounts serve different purposes, for example they are used to collect tax arrears, and retain shares of certain fines, fees, and compulsory payments.[8] The flows passing through off-budget accounts are significant and vary across years. In 2016, revenues and expenditures accounted for 2.6 percent of GDP, with no impact on the general government balance. However, in 2017, revenues accounted for 5.4 and expenditure for 4.6 percent of GDP. In addition, donor grants and related expenditure, estimated by the government to be around 2 percent of GDP in 2018, are not included in the fiscal and statistical. Moreover, including Children's Sport Fund, Aral Sea Fund, and Deposit Insurance Fund will increase government revenue and expenditure by 0.4 and 0.3 percent of GDP.

Box 1.1 Distinguishing Extra-Budgetary Funds and Off-Budget Accounts

Off-budget accounts. In many countries, central and local government budgetary units may be permitted to perform some activities outside the ordinary budget, via a special purpose bank or treasury account (so called 'off-budget' or 'extra-budgetary' accounts). Off-budget accounts can be used by ministries, or other budgetary organizations to put aside some funds as reserves, which are then used to finance specific investments, social and cultural objectives, collect 'own' revenues such as occasional sales, repayment of arrears, fines, penalties, etc. Often, government operations passing through off-budget accounts are not reflected in the fiscal balance as defined by the national legislation. However, the economic owners of the accounts are the budgetary organizations and the performed operations should ultimately be considered as government operations. Thus off-budget accounts should be included in fiscal reports and consolidated within the state or local budgetary organizations as relevant, and the flows should be captured under appropriate revenue, expenditure, and financing economic categories.

Extra-budgetary funds. Government units may establish a separate entity, extra-budgetary fund (EBF), to carry-out specific government functions and conduct operations on behalf of the government. Contrary to off-budget accounts, EBFs are separate legal entities, institutional units which are controlled by government, but have autonomy of decision. They are usually financed, in addition to grants and other types of transfer from the budget, also by own revenues. Depending on the national legislation and the purpose of EBFs, they are established under various legal forms, for example non-profit institution, fund, hospital, university, enterprise, or even joint stock company, etc. According to international statistical standards, those units established and controlled by government which operate on a non-market basis, should be consolidated with the general government sector as EBFs.

13. Taxes retained by corporations are not included in fiscal reports. Based on agreement with government, some PCs retain a portion of compulsory payments and taxes and use them for public investment, other policy-oriented expenditure, or debt servicing. Based on international standards, retained taxes should be rerouted through government accounts—that is, recorded as government revenue and subsequently as a subsidy, capital transfer, or other type of expenditure to the benefiting entity. The amount of taxes retained by PCs was not available at the time of the evaluation.

14. As published fiscal reports are compiled on a cash basis, they do not capture available information on accrued revenues and expenditures. The estimated increase in other accounts receivable and other accounts payable of budgetary organizations accounted for

[8] Some examples include: financial sanctions for legal violations, compulsory payments for pollution, entry and exit visa fees, and sales from property seized by customs.

0.2 and 0.6 percent of GDP respectively in 2016. This indicates that the level of revenues is higher by 0.2 percent of GDP and expenditure by 0.6 percent of GDP on an accrual basis, thus reducing the surplus, as measured on an accrual basis, by 0.4 percent of GDP.

15. Revenues of EBFs have not been recorded in line with international standards resulting in overestimation of the government surplus. The current national standards for reporting do not always reflect the economic substance of some transactions as required by international statistical guidelines and accounting standards. In 2016, revenue from "exchange profit" on reserves in foreign currency was recorded by two EBFs. The gains originated from devaluation of the national currency is not considered to be revenue in GFSM 2014, but rather as another economic flow—revaluation of reserves. Exclusion of the exchange profit from revenue decreased the government surplus by 3 percent of GDP in 2016.

16. Addressing these gaps would result in an increase in reported general government expenditures and lower budget surplus for 2016. The net effect of including the unreported off-budget accounts and EBFs and eliminating of the misclassified revenue, as described above, will increase reported general government expenditure by 3.0 percent of GDP, reduce reported revenues by 0.1 percent (reflecting offsetting impacts) and reduce the reported budget balance by 3.1 percent of GDP, to 1.8 percent of GDP in 2016.[9] Considering the flows in other accounts receivable/payable may potentially worsen the surplus by additional 0.4 percent of GDP.

1.1.4 Coverage of Tax Expenditures (Not Met)

17. The government does not publish estimates of the revenue loss from tax expenditures, but expects to do so in the near future. A presidential resolution of May 2018 requires that the MoF include, as a separate line in the forecast of the main macroeconomic indicators and parameters of the 2019 state budget, the estimated revenue loss from tax and customs privileges and preferences. But, as yet, this has not been reported. The authorities are currently reviewing all these privileges and preferences, in order to minimize their incidence and maximize their effectiveness, as required by the May 2018 presidential resolution.

18. The MoF, and tax and customs committee's compile estimates on tax privileges and exemptions by type and sector. While this information needs to be quality assured, its publication following such review would be relatively straightforward. If the authorities published, on a regular basis, the estimated revenue loss by sector, together with a description of the main policy objectives and beneficiary groups, Uzbekistan's fiscal transparency practice would meet the good level of practice as set out by the Code.

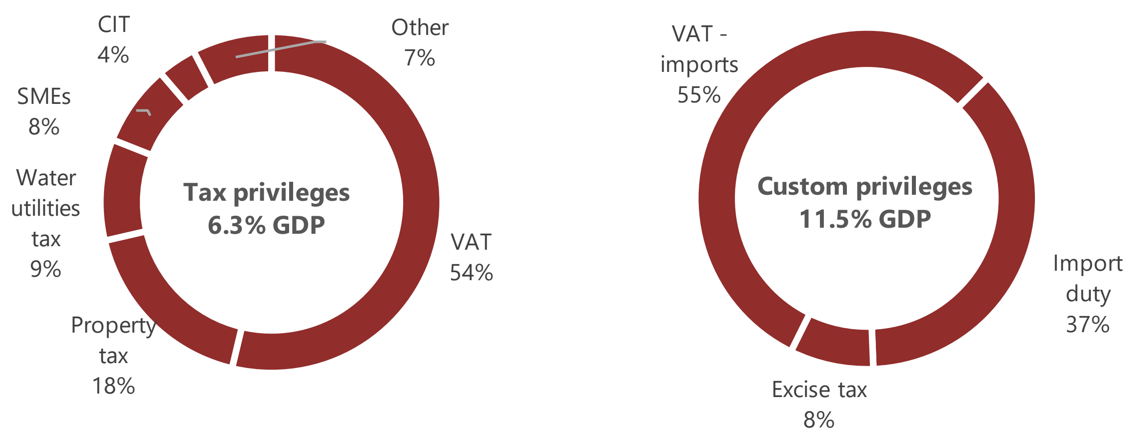
19. Tax expenditures, which arise from provisions of the Tax and Customs Code's, international agreements, and presidential resolutions, are significant. A wide variety of tax privileges and preferences are granted by 26 provisions of the Tax Code and 362 presidential

[9] This does not account for the inclusion of donor financed grants and related expenditure, for which data was not available.

resolutions. The authorities preliminary estimates of the revenue losses from them are in the order of 18 percent of GDP (Figure 1.6). However, this is likely an overstatement, as it includes estimates of revenue losses internal to government and incorrectly assess revenue losses for certain items. Issues of methodology need to be resolved to better inform reliable estimates.

20. Most tax expenditures are aimed at attracting foreign investment, economic development or meeting social objectives. Tax holidays are provided to companies making large foreign direct investments, while companies located in Free Economic Zones are exempt from company, property, and land taxes, customs duties, and mandatory contributions to STFs. Further, companies investing in new technological equipment also benefit from a tax reduction. The Tax Code also provides for a list of 37 categories of goods and services that are exempt from value-added tax, including various education, medical, and recreational goods and services. Some tax expenditures are directed at specific sectors, such as textiles, foodstuffs, software, leather, and rural services, while others are aimed at the development of certain regions (e.g., there are around 100 district industrial zones).

Figure 1.6. Estimated Tax Expenditures by Type of Tax, 2017
(Percent of Total)



Source: MoF.

1.2. Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of In-Year Fiscal Reporting (Good)

21. Preliminary in-year reports on the execution of the state budget are published within 25 days of the end of each quarter. The preliminary report presents tables on state budget execution, by tax type and expenditure function. Uzbekistan publishes in-year execution reports within a month, which would count it among the half of SDDS subscribers that are as prompt. The final reports are published within 45 days of the end of the quarter, and are produced following discussions in parliament and reconciliation between treasury and budget organization accounting records. The quarterly reports, which are comparable with that of the final annual budget execution report, include high-level breakdowns of revenue types and social expenditures, along with changes in outturns compared with the previous year, but not the approved budget. The final reports also include execution of four of the five STFs as well as substantial commentary on significant developments. In addition, quarterly statistical tables on budget execution report activities of the central government by economic classification, and activities for the general government by tax type and spending by function.

22. There is scope to produce timely budget execution reports on a monthly basis and improve their quality. Other countries, with centralized treasury systems, are able to produce timely budget execution reports for entities covered by the treasury system. These are usually unaudited fiscal tables with limited commentary. In addition, the content and format of the in-year reports should be enhanced in line with the recommendations of this evaluation to present more detailed breakdowns of expenditure and to improve the functional classifications to bring them more in line with international standards. Transparency will be maximized by ensuring that the in-year and annual budget execution reports continue to be aligned in their presentation and consistent with the annual state budget.

1.2.2. Timeliness of Annual Financial Statements (Advanced)

23. The audited annual budget execution report for the state budget for 2017 was published, for the first time, before the end of June 2018. It provides a succinct summary of execution, and, similar to in-year reports, includes high-level breakdowns of revenue types and social expenditures for the state budget, as well as information on the revenues and expenditures of the four of the five STFs. It also includes commentary on significant developments.

24. The authorities expect to expand progressively the information presented in the audited annual state budget execution report. To maximize transparency it is advisable that the reports: (i) present ex-post information that corresponds, in substance and in format, with the ex-ante information in the budget documentation, so that the public and other stakeholders can most easily compare what happened with what was planned; and (ii) apply leading examples from a range of other countries with respect to the content and format of information disclosed. Once the authorities' intention to bring the legacy accrual accounting framework into line with International Public Sector Accounting Standards (IPSASs) is realized, and the Chamber of Accounts (COA) is applying International Standards of Auditing (ISAs), it will be more difficult to produce the audited annual financial statements within 6 months of year-end, because of the additional information that will need to be audited and the more stringent auditing procedures.[10]

1.3. Quality of Fiscal Reports

1.3.1. Classification (Not Met)

25. Fiscal reports present spending by economic and functional classification, but not by administrative unit. In many respects the classifications used in statistical reports contain

[10] The draft Concept of the Modernization of Uzbekistan's PFM System (www.mf.uz) sets out the Government's plans to strengthen accounting and reporting.

several elements of good practice. Detailed quarterly GFS reports present information on general government revenues, expenditures, and financing broadly in line with GFSM 2014. Detailed breakdowns of revenues and expenditures by economic classification are provided, along with a detailed breakdown of spending by function in line with statistical reporting standards. The annual report on state budget execution (and in-year reports), also present fiscal information by functional classification for the state budget, but these are not fully aligned with United Nations' Classification of Functions of Government. However, no report provides a breakdown of spending by administrative unit, which is required to meet the basic level of practice as defined by the Code. A program classification is not yet in place, but is planned to be introduced over the medium-term as outlined in the draft Concept on the Strategy to Reform the Public Finances of the Republic of Uzbekistan.

26. Economic and functional classifications underpinning fiscal reports need to be further aligned with international standards. While the national budgetary classification is based on the GFSM 2001, the presentation in the budget execution report is not aligned with this standard. Revenues and expenditure, as presented in the budget, include financing operations which should instead be treated as 'below the-line' financing transactions. Economic classification of revenues should be expanded to also show, in addition to taxes, other types of economic categories. Moreover, expenditures should also be presented by economic classification. In addition, the breakdown of expenditures by functions could be brought more in line with international standards.

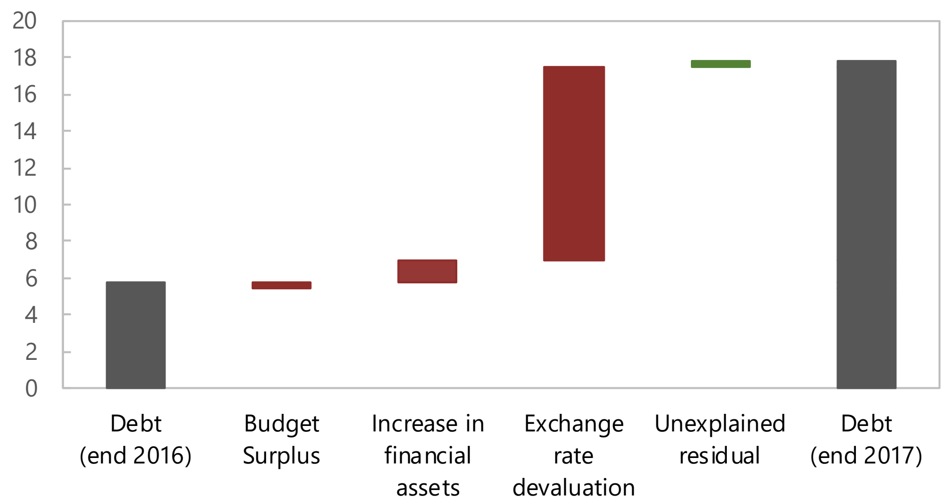
1.3.2. Internal Consistency (Basic)

27. Uzbekistan publishes one of the three internal consistency checks of fiscal data required under the Code. The statistical reports provide full reconciliation between the above-the-line fiscal balance and the below-the-line financing, detailing the acquisition and drawdown of financial assets and incurrence and repayment of liabilities. These are provided in gross terms, and net out so that net financing needs match the fiscal balance. There is no reporting on the holders of government debt that can be compared with debt owed. Since, almost all debt is in the form of loans from multilateral or bilateral lenders, publication of debts by lender would be relatively straightforward.

28. There is also no reconciliation published between the net financing and the change in the stock of debt—the stock-flow adjustment. Reconciling the change in debt with net financing, and other flows (e.g., revaluation due to exchange rate depreciation) highlights the main debt creating flows, and helps identify any discrepancy or data integrity issues. It also helps ensure the public can understand how the main fiscal aggregates add up. In Uzbekistan, up until recently, the government did not face material budget financing requirements and its debt was declining. However, with liberalization of the currency, understanding changes to the valuation of stocks denominated in foreign currency becomes more relevant. Further, the government undertakes substantial borrowing activities to finance investments for policy purposes, the impact of which should be clearly explained.

29. Developments over the past year underscore the importance of understanding the factors behind changes in the stock of debt. Figure 1.7 presents a reconciliation of the elements contributing to changes in the stock of debt for 2017. The depreciation of the exchange rate accounts for the bulk of the increase in debt (10.5 percent of 2017 GDP), followed by net financing – essentially loans to PCs (1.2 percent of 2017 GDP). The state budget surplus (0.28 percent) contributed to reduce the debt slightly. The residual (0.29 percent of GDP) includes unidentified factors or possible errors. Given that Uzbekistan also has substantial asset holdings in foreign currency, debt valuation changes due to exchange rate depreciation, will be offset by increases in asset values, and overall may have positive implications for the balance sheet.

Figure 1.7. Stock-Flow Reconciliation, 2016–17
(Percent of 2017 GDP)



Source: IMF Staff calculations.

1.3.3 Historical Revisions (Not Met)

30. Fiscal statistics are not revised. Annual submissions of GFS data to the IMF commenced in 2011 and historical fiscal data published by the authorities is not revised. The recommendations of this fiscal transparency evaluation would result in meaningful revisions to the GFS data, which, if adopted by the government, should be disclosed. The inclusion of off-budget accounts and missing EBFs including DIF should be implemented across the time series and the impact of these reclassifications should be disclosed along with detailed data supporting the decision.

1.4. Integrity of Fiscal Reports

1.4.1. Statistical Integrity (Basic)

31. Fiscal statistics are compiled and published by the MoF, on a GFSM 2014 basis, and also reported to the IMF for inclusion in the annual GFS database. These reports are compiled by staff within the Budget Department, and there is currently no standalone fiscal statistics unit within the MoF. A good practice is to ensure a more transparent delineation between the producers of source data and statistical compilers and to provide some operational independence for the compiler of fiscal statistics.

1.4.2 External Audit (Basic)

32. **The COA publishes a report on the annual execution of the state budget and the STF budgets.** The COA's report for the 2017 year was the first that was published. It is mainly a report on compliance with relevant budget legislation; a current priority of this work is to review the extent to which revenue that should be collected under relevant legislations is being collected. However, it also expresses an explicit opinion on the reliability of the financial data in the annual reports on the execution of the state and STF budgets. It does not, as yet, review the separate budget execution reports of individual budgetary organizations and line ministries, nor their financial statements prepared according to the legacy accrual accounting framework under which they report. The COA is independent of the government, is responsible to the President, and also reports to parliament.

33. **The COA's opinion states that it is based on checks of aggregate data.** In due course, the COA should check disaggregated data according to ISAs for financial audits. The authorities are considering developing a new audit law which would provide, inter alia, for the COA to apply ISAs. This would be a desirable step in preparation for the future audit of the IPSAS-based financial statements, including presenting a true and fair view of the financial position reported in them, the value of which would be diminished if they were not audited according to ISAs.

34. **A new audit law should also strengthen the COA's independence.** At present, much of the COA's activity is directed by presidential decrees. Moreover, the COA has insufficient resources to conduct financial audits according to ISAs of the annual budget execution reports, let alone of IPSAS-based financial statements, in addition to its other responsibilities. A new audit law should reflect the International Organization of Supreme Audit Institutions (INTOSAI) principles of supreme audit institution independence, and the COA should desirably join INTOSAI.

1.4.3 Comparability of Fiscal Data (Basic)

35. **Preliminary state budget execution reports are produced on the same basis as the state budget, but there are differences across fiscal and statistical reports that are not reconciled.** Preliminary quarterly budget execution reports present revenue and expenditure for the state budget on a comparable basis to the approved budget documentation, but do not compare outturns for EBFs. Statistical reports on general government operations recently posted on the National Summary Data Page in the context of the e-GDDS initiative present fiscal allocations approved in the annual budget (for the state budget and EBFs) in a format that is comparable to the quarterly statistical report on government operations.

36. **The differences between budget execution reports and GFSM 2014 reports are large.** In 2017, revenues and expenditures of the State Budget of the Republic of Uzbekistan

excluding target funds were approximately 9 percent of GDP higher and the surplus lower by 0.1 percent of GDP than the state budget data presented in the GFSM 2014 based statistical report. These differences are partially driven by the treatment of financing operations which are included in revenues and expenditures in the budget execution report, but treated 'below-the-line' as financing in GFS. Moreover, the budget execution report includes in revenues a surplus carried on from previous years that is not treated as an operation in GFS.

1.5 Recommendations

37. Uzbekistan has taken steps over the past year to increase the availability of information on public finances. As a result, fiscal reports are beginning to show some sound elements of basic fiscal transparency practices (Table 1.3). For example, statistical reports cover most general government activity, there is regular and timely reporting on in-year budget execution, and the COA now publishes an opinion on the reliability of data in the annual budget execution report.

38. However, there is considerable scope to enhance the coverage, quality, and integrity of fiscal and statistical reports. Some EBFs are not covered in fiscal and statistical reports and not all activities of state off-budget accounts are recorded. Furthermore, no information on government assets is disseminated, and there are gaps in the coverage of liabilities. Sizable revenues forgone from tax expenditures are not reported, and differences in revenues and expenditures reported across different reports are not explained. However, much of the information required to address these gaps is already compiled by the MoF for internal management purposes. Consolidation and publication of this information, combined with planned reforms to develop modified-accrual based financial statements over the medium-term, would substantially improve the assessment against the Code, as shown in Table 1.4.

39. Based on the above assessment of current practices, the evaluation highlights the following priorities for improving the transparency of fiscal reporting:

- **Recommendation 1.1: Expand the coverage and comprehensiveness of fiscal reports.**
    a. Expand the coverage of published consolidated general government GFS reports to include central government and sub-national government EBFs that are currently not reported, off-budget accounts, and non-market entities currently treated by the government as public corporations.
    b. Ensure that all tax revenues currently retained by STFs and PCs are appropriately reported in fiscal and statistical reports.
- **Recommendation 1.2: Publish balance sheet information for the general government.** Publish a consolidated statistical report of financial assets and liabilities for the general government and its sub-component sectors, and over time, expand this to include information on non-financial assets.

- **Recommendation 1.3: Publish an annual statement on tax expenditures.** Publish, on an annual basis, estimates of the revenue forgone from tax exemptions and privileges by sector or policy area, including a description of the main policy objectives and beneficiary groups.

- **Recommendation 1.4: Enhance the quality, comparability and integrity of fiscal reporting.**

  a. Expand the presentation of fiscal information in fiscal reports, by:

     – Presenting information by administrative unit in fiscal reports;

     – Improving the economic classifications presented in quarterly statistical reports to bring them more into line with GFSM 2014; and

     – Improving the information presented on functional classification, by bringing them into full compliance with international standards.

  b. Explain and reconcile differences in the main fiscal aggregates across fiscal and statistical reports, and to the extent possible align budget execution and statistical reports.

Table 1.3. Uzbekistan: Summary Evaluation: Fiscal Reporting

	Principle	Assessment	Importance	Recs
1.1.1	**Coverage of Institutions**	**Basic:** Fiscal reports cover most general government (GG) activity, but exclude some EBFs that should be classified within that sector and there is no reporting on PCs.	**Medium:** Expenditures of unreported EBFs were 0.4 percent of GDP in 2016, while activities of the largest PCs are significant at around 8 percent of GDP.	**1.1**
1.1.2	**Coverage of Stocks**	**Not Met:** External debt statistics are published, but no information is provided on other liabilities, financial or nonfinancial assets.	**High:** Unreported public sector liabilities of around 62 percent of GDP and assets of 443 percent of GDP.	**1.2**
1.1.3	**Coverage of Flows**	**Not Met:** Fiscal reports do not include all cash revenues, expenditures, and financing, of state budgetary organizations.	**High:** Central government expenditure was understated by 3 percent of GDP in 2016, resulting in an overestimate of the budget surplus.	**1.1**
1.1.4	**Coverage of Tax Expenditures**	**Not Met:** Revenues foregone from tax expenditures are not reported.	**High:** Preliminary estimates suggest revenue losses in the order of 18 percent of GDP.	**1.3**
1.2.1	**Frequency of In-Year Reporting**	**Good:** Preliminary quarterly reports on state budget execution are published 25 days after the end of the quarter.	**Medium:** Expenditure outturns have differed by around 0.6 percent of GDP, on average, from budget allocations.	
1.2.2	**Timeliness of Annual Financial Statements**	**Advanced:** Audited cash based annual budget execution reports are published within 6 months of the end of the year.	**Low:** Strengthening audit requirements may lengthen the timeframe for publication the reports, but potentially enhance quality.	
1.3.1	**Classification**	**Not Met:** Fiscal reports present economic and functional classifications, but not activities by administrative unit.	**Medium:** There are some large inconsistencies between national and international classification standards.	**1.4**
1.3.2	**Internal Consistency**	**Basic:** Fiscal reports include only one reconciliation of the budget balance and financing.	**Medium:** Difference between changes in the debt stock and budget financing were 10.8 percent of GDP in 2017.	
1.3.3	**Historical Revisions**	**Not Met:** Fiscal Statistics are not revised.	**Low:** Revisions are valuable, but the priority is to prepare robust fiscal statistics.	
1.4.1	**Statistical Integrity**	**Basic**: GFS reports are disseminated broadly in accordance with international standards.	**Medium**: There are no independent checks on the fiscal statistics.	
1.4.2	**External Audit**	**Basic:** The COA publishes an opinion on the reliability of the data in the annual budget execution report, but the audit is largely compliance based.	**Low:** A new law to bring external audit more into line with international standards is being considered.	
1.4.3	**Comparability of Fiscal Data**	**Basic:** State budget execution reports are prepared on the same basis as the budget, but differences between fiscal reports and GFS are not explained.	**High**: Revenues and expenditures in fiscal and statistical reports differ by 9 percent, but differences in the deficit are low.	**1.4**

Table 1.4. Uzbekistan: Evaluation of Fiscal Reporting after Planned Reforms

		Current Practice	Government's Proposed Reforms and/or Publication of Existing Information	Practice after reform and publication
1.1.1		Coverage of Institutions	Include in published GFS reports, fiscal activities of those EBFs currently omitted, for which data is already available.	Good
1.1.2		Coverage of Stocks	Publish in statistical reports, information on cash deposits (already available), alongside external debt.	Basic
1.1.3		Coverage of Flows	Consolidate information, which is compiled for internal management purposes, on off-budget accounts within GFS reports.	Basic
1.1.4		Tax Expenditures	Publish information on tax expenditures by sector or policy area, following review of existing data.	Good
1.3.1		Classification	Publish information on the fiscal activities at the administrative level, which is compiled internally, along with improved functional and economic classification.	Good
			Implement proposals to publish fiscal reports at the program level.	Advanced

Note: this alternative evaluation considers prospective reforms contained in published documents and the publication of readily available existing information. The timeframe considered is from 2018 to 2021, in line with the Action Plan detailed in this report. A future evaluation would need to consider the details of how any proposed reforms are implemented

II. FISCAL FORECASTING AND BUDGETING

40. Fiscal forecasts and budgets should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances. This chapter assesses the quality of Uzbekistan's fiscal forecasting and budgeting practices against the standards set by the four dimensions of the fiscal transparency code:

- The comprehensiveness of the budget and associated documentation;
- The orderliness and timeliness of the budget process;
- The policy orientation of budget documentation; and
- The credibility of the fiscal forecasts and budget proposals.

41. Uzbekistan's frameworks for budget preparation and approval have undergone a rapid transformation in recent years. The Budget Code enacted in 2014 and Law on Public Procurement enacted in 2018 represent major upgrades to supporting legal frameworks. Prior to 2014, the parliament approved only the state budget deficit, without separately approving the main parameters of revenue and expenditure estimates. The draft budget (the 'Budget Message') and detailed budget estimates were published for the first time during the 2018 budget process; prior to this, relatively few details were made public. Table 2.1 provides a summary of existing budget reports.

42. The government has announced a number of initiatives to further strengthen the transparency of fiscal forecasting and budgeting. Long-standing proposals to implement a medium-term budget framework (MTBF) are taking shape and the 2019 budget will be the first to contain medium-term fiscal aggregate projections and a statement of the government's fiscal strategy. Over time, the government's ambition is to better integrate budget and planning frameworks to achieve a stronger performance orientation and devolution of control. The government also plans to publish its first citizen's budget in July 2018 and release this annually when the draft budget is presented to parliament.

Table 2.1. Uzbekistan: Fiscal Forecasting and Budget Documents

Document	Coverage			Accounting		Publication Date
	Institutions	Flows	Stocks	Basis	Class.	
Budget Message (Includes excerpts of Draft Budget)	GG, some EBFs	R, E, F	np	Cash	Nat	Sept.
President's Budget Resolution and Annexes (Approved Budget)	GG, some EBFs, UFRD	R, E, F	np	Cash	Nat	Dec.
Opinion of Chamber of Accounts on Draft Budget	GG, some EBFs	R, E, F	np	Cash	Nat	np
Register of Cost and Staff Estimates	GG	R, E, F	np	Cash	Nat	np

Note: GG: General Government; CG: Central Government; R: Revenue, E: Expenditure; Nat: National, np: not published.

2.1. Comprehensiveness of Budget Documentation

2.1.1. Budget Unity (Not Met)

43. The annual state budget covers all general government budgetary organizations, but excludes significant transactions conducted by them.[11] The state budget covers both central and local government. In addition, it presents information on activities of the STFs defined by the Budget Code.[12] However, not all revenues and expenditures of state budgetary organizations are presented in the budget or included in the state budget fiscal aggregates. The main omissions to coverage of state budget revenues and expenditures include:

- **Off budget accounts of budgetary organizations.** Significant tax and non-tax revenue is retained by budgetary organizations in off-budget accounts, and used to finance off-budget expenditures.[13] The flows passing through off-budget accounts are significant, but vary across years. For 2018, revenues retained in off-budget accounts, and their related expenditures, were estimated by the government to be around 1.5 percent of GDP. For 2017, revenues and expenditures in off-budget accounts accounted for 5.4 and 4.6 percent of GDP, respectively.
- **Donor grants and related expenditures.** External financing from donors to fund social programs and infrastructure delivery of budgetary organizations is not included in the budget. For 2018, the government estimated these donor-financed activities were in the order of 2 percent of GDP.
- **Tax revenues allocated to EBFs.** Certain EBFs receive taxes in accordance with the Budget Code and other legislation. Several STFs, for example, are allocated revenues from a 3.5 percent tax levied on corporate entities (estimated to collect around 1.8 percent of GDP in 2018). These revenues should be accounted for in State Budget tax revenue, to ensure an accurate picture of the overall tax burden, and their associated transfers to the STFs reported as State Budget expenditures under the current budget presentation. This would have no net impact on the state budget balance.
- **Tax revenues retained by PCs.** There are some isolated examples of tax revenue being retained by PCs for investment or other purposes. For example, the 2018 Budget Message reports that Uzbekneftgaz will retain a share of the excise it collects on petroleum and gas sales, equivalent to about 0.2 percent of GDP. Such revenues should also be captured within

[11] Annex 2 to the President's Budget Decree (Decree No. 3454, December 29, 2017) is the key budget table, setting out the main parameters of revenue and expenditure of the state budget approved by the Parliament. Annexes 1-6 of the Decree were published for the first time as part of the 2018 budget process.

[12] The definition of STFs and EBFs is set out in Chapter I (Footnote 1 and 2). In addition to those listed, several new EBFs have been created, for example the Clean Drinking Water Fund and Book Fund, since 2016.

[13] Cabinet Resolution No. 414 of 3 September 1999 granted budgetary organizations the right to form extra-budgetary development funds (called off-budget accounts for the purposes of this Report).

State Budget revenue, to ensure an accurate picture of the overall tax burden, with associated transfers to PCs recorded as state budget expenditure.

44. In addition, the coverage of EBFs presented in the budget is not complete. Revenue and expenditures (including financing) for the six STFs and for the UFRD are presented in aggregate form in the budget, with detailed breakdowns on their components only provided for a subset of these.[14] Although, the inclusion of some information of EBF activities in the budget represents some elements of good practices, budget coverage is not comprehensive. Several EBFs, including the Children's Sports Fund, Book Fund, Clean Drinking Water Fund and Aral Sea Fund are not included in the budget documentation.[15] The Children's Sports Fund and Aral Sea Fund recorded expenditure of around 0.3 percent of GDP in 2016.

45. While the activities of some EBFs are presented in the budget, these are not consolidated in the fiscal aggregates. Annex 2 presents consolidated revenues, expenditures and budget balance for the state budget only. No fiscal aggregates are presented in the draft budget for the consolidated State and EBF budgets, although these are prepared by the government for analytical purposes and published in the statics report on general government operations. While such estimates could be compiled based on information for those EBFs presented in the budget, in practice it is complicated by the inclusion of financing transactions in reported expenditure, particularly for the UFRD (whose gross financing activities were estimated to be 3 percent of GDP in the 2018 budget), and in cases where EBFs are drawing on their cash balances to finance current year expenditures. In 2018, EBF expenditures exceeded the forecast of current year revenues by around 0.1 percent of GDP (with the difference financed by drawing down cash balances).

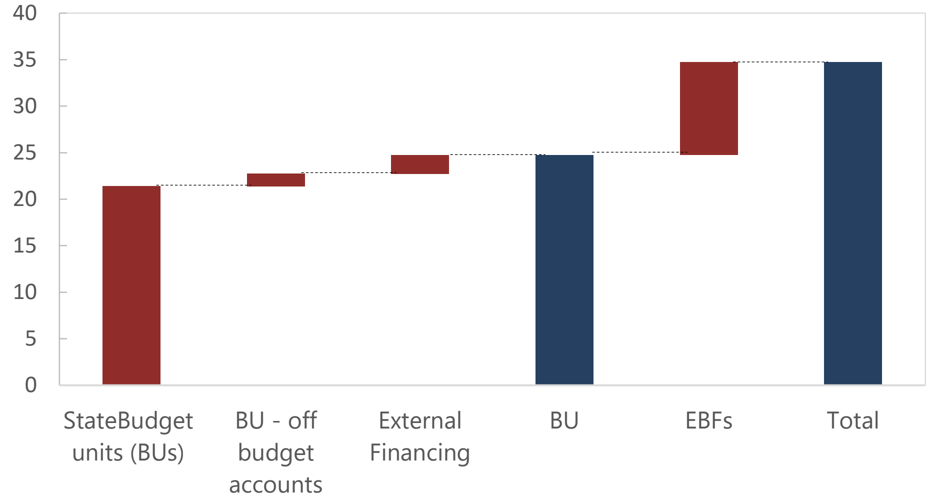
46. Combined, the gaps in the budget coverage for reported revenues and expenditures are significant, although the impact on the reported budget balance is likely to be small. Based on available information, *state* budget expenditures and revenues are underestimated by at least 3.5 percent of GDP, or around 16 percent of reported state budget expenditure. While including the revenues and expenditures of the EBFs (other than the UFRD) would add a further 10 percent of GDP to *consolidated* budget expenditures. For 2018, consolidated expenditure of budgetary organizations and EBFs, would be 13.5 percent of GDP higher than reported state budget expenditure (Figure 2.1).

[14] Aggregate revenue and expenditure estimates for Pension Fund, Road Fund, Education and Medical Infrastructure Fund, the Irrigated Lands Reclamation Fund, Employment Fund and Privatization Fund are presented in Annex 2 of the Budget, along with aggregate estimates for the UFRD. But, a detailed breakdown of revenue and expenditure components are presented only for the Pension Fund, Road Fund, Education and Medical Infrastructure Fund, and the Irrigated Lands Reclamation Fund (Annexes 3-6).

[15] One reason for the differentiated treatment among EBFs is that the funds have varying legal requirements relating to their sources of revenue and approval of their respective budgets.

Figure 2.1. Composition of Consolidated General Government Expenditure, 2018

(Percent of GDP)



Source: MoF data, IMF staff estimates.

Note: The estimate for off-budget accounts only covers budgetary organizations. The estimate for EBFs does not include all EBFs or their off-budget accounts. Financing activities of the FRD, representing around 3.1 percent of GDP, are excluded, but total expenditures may include financing activities of other entities as they could not be separately identified.

47. Financing activities are not separately presented in the budget. Loans for policy purposes are included in expenditure aggregates, and drawdowns of cash balances are effectively recorded as a source of revenue. This reduces the degree of transparency around how funds are being raised and the purposes for which they are used. A more transparent treatment would be to separately identify financing transactions for policy purposes from traditional expenditure, and to report both a measure of the budget balance in line with GFSM 2014 and overall budget balance (which includes lending for policy purposes). In addition, drawdowns of cash balances should be accounted for as below the line financing transactions.

48. The government is developing a more comprehensive picture of government activity and plans to bring more activities on budget.[16] A Draft Concept on Reform of the Public Finances of the Republic of Uzbekistan sets out plans to conduct a review of off-budget accounts of state budget organizations and present estimates of their income and expenditures to Parliament. As a general principle, all activities of budgetary organizations, compulsory taxes levied, and expenditures (regardless of their source of funding) should be reported in the state budget. The government already captures significant information on off-budget activities, which are captured through the treasury single account. However, while the government has identified and published figures on the size of some of these off-budget activities, further work would be

[16] A Draft Concept on reform of public financial management refers to plans to publish estimates of the income and expenditure of off-budget accounts of Ministries and departments within the consolidated budget (which is currently prepared for analytical purposes, but is not approved by Parliament or published

required to determine their appropriate classification and to consolidate potential intra-government transactions.

2.1.2. Macroeconomic Forecasts (Basic)

49. The budget includes forecasts for the main macroeconomic variables for the budget year but does not include discussion of their underlying assumptions and drivers. Annex 1 to the President's Budget Decree presents one-year ahead forecasts for real GDP and some components (such as industrial and agricultural production) as well as for the fiscal position. It does not present all relevant indicators (e.g., employment), components and underlying assumptions (e.g., exchange rates or interest rates) or provide a discussion explaining the outlook and its main drivers. Forecasts beyond the budget year have not been prepared or published in previous years.

50. Concerns around the quality of macroeconomic statistics, combined with lack of publication of past forecasts, makes it difficult to evaluate forecast accuracy. An examination of unpublished data over the past decade, shows nominal GDP has been overestimated, on average, by 2.6 percent, with considerably larger forecast errors in some years.[17] In absolute terms, the forecast error for nominal GDP, averaged 5.7 percent over the same period. Real GDP forecasts, in contrast, appear to have been relatively accurate and unbiased, with an average absolute forecast error of less than 0.4 percent over the past ten years.[18] However, this does not accurately reflect past forecasting performance given quality issues around historical macroeconomic statistics. Starting from the second half of 2017, the State Statistics Committee began publishing more realistic estimates of economic activity. For last year, the authorities overestimated real GDP growth by 2.5 percent.

51. The government has committed to publishing medium-term projections in the 2019 State Budget. The Ministry of Economy (MoE) has begun coordinating these forecasts, working with the MoF and CBU. In addition, the State Statistics Committee is reviewing its methodology for compiling GDP data and expanding the coverage of relevant surveys. It will be important that the macroeconomic data and forecasting frameworks provide a reliable and credible platform ahead of the adoption of a fully-fledged medium-term budget framework. Budget documentation should present a clear picture of the economic forecasts, explanation of the main drivers and the assumptions on which they are based. Providing information and explanations of such assumptions increases the external understanding of the forecast and its credibility.

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[17] Forecast errors for nominal GDP ranged from -16.4 (overestimate) to 14.2 percent (underestimate) during the past ten years.

[18] Real GDP was under-estimated by 0.2 percent, on average, over the past ten years, with forecast errors in the range of -2.5 to 1 percent.

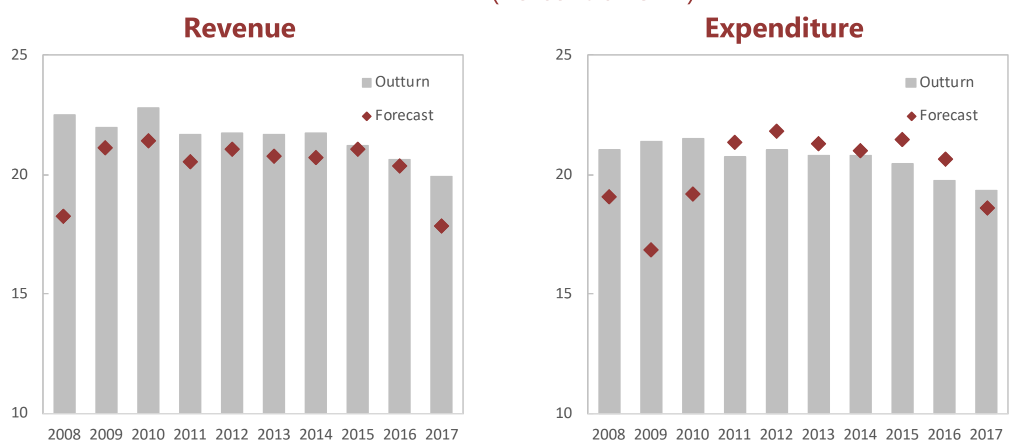
2.1.3. Medium-Term Budget Framework (Not Met)

52. The budget presents forecasts of revenue, expenditure and the state budget balance for the budget year only. Annex 2 to the President's Budget Decree, contains estimates of revenue in aggregate and by detailed revenue category. Expenditure estimates are presented in aggregate and at functional and sub-functional levels, based on national classification standards.[19] There is no presentation of budget allocations by Ministry or administrative unit, or by economic category. Outturns for the previous year and updated estimates for the current year are also not presented.

53. Budget year revenues have been systematically underestimated over the past decade, on average, while expenditures have been overestimated (Figure 2.2). Revenue has been underestimated in each of the past 10 years, with an average forecast error of 1.3 percent of GDP, or 6.6 per cent of forecast revenue. The government is permitted to spend revenue in excess of the forecast,[20] and as a result, budget year expenditure forecasts have consistently been revised upwards. Actual expenditure has exceeded forecasts by an average of 0.6 percent of GDP over the past decade, or 3.6 per cent of forecast expenditure, with substantially higher errors in several years.[21]

Figure 2.2. State Budget Revenue and Expenditure Forecast Errors, 2008–17

(Percent of GDP)



Source: MoF, WEO, IMF staff estimates.

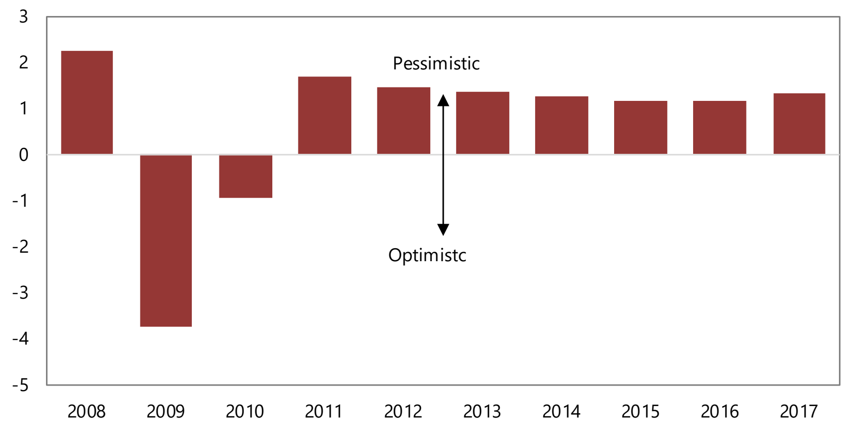
[19] Under budgetary conventions, financing transactions are included within the revenue and expenditure estimates, that is, 'above the line' (e.g., loans from budgetary central government to other entities appear under 'other expenses').

[20] Under the Budget Code, revenue in excess of forecasts can be spent without Parliamentary approval, subject to the approved fiscal balance and cash reserve targets being met, and as long as total expenditure does not exceed the budget forecast by more than 10 percent (also see discussion under institution 2.4.2).

[21] Total expenditure exceeded the budget forecast by 10 percent or more on three occasions: 2008, 2009, and 2010 (prior to the current Budget Code). However, aggregate expenditure has been less than forecast in each year since 2011, other than 2017 when a supplementary budget request was approved

54. The state budget balance has been in surplus in each of the past ten years and has exceeded forecasts in each year since 2011. On average, over the past decade the reported budget balance has been 0.7 percent of GDP stronger than forecast (Figure 2.3). The mean absolute forecast error, of 1.6 percent of GDP, is toward the upper end of the range among select countries for which data is available (Figure 2.4)

Figure 2.3. State Budget Balance Forecast Errors, 2008–17
(Percent of GDP)



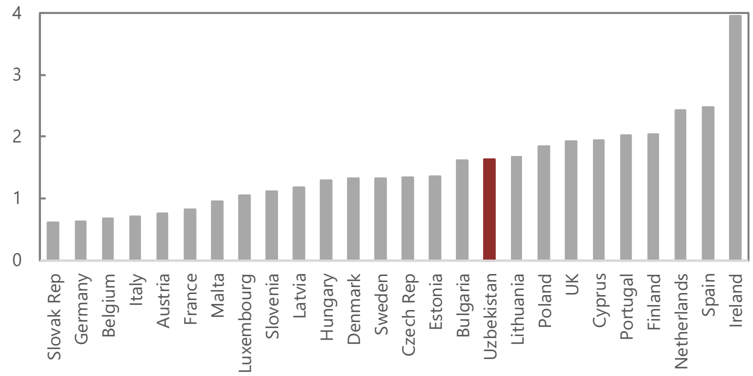
Source: MoF, WEO, IMF staff estimates.
Note: Pessimistic means the outcome for the budget balance was better than expected, or the forecast was too pessimistic, while optimistic means the budget balance deteriorated compared to forecasts.

55. The government is planning to present three-year fiscal aggregate projections for the first time in the 2019 budget. A concept note on the implementation of a MTBF has been published.[22] For several years, agencies have prepared their own multi-year expenditure projections as an input to the budget process, but these do not appear to be based on common assumptions and the information was not used beyond the budget year. From 2019, the information will be used to estimate a budget base for future years, but only the aggregates will be reported to the parliament. The government also plans to prepare and release a medium-term fiscal policy statement (see institution 2.3.1). Over time, the system will evolve to include more bottom-up information from agencies and to reconcile this with the top-down aspects of the fiscal framework, and gradually adopt more of a performance orientation (see institution 2.3.2).

[22] Concept Note on Medium-Term Budget Framework, published on the MoF website.

Figure 2.4. Budget-Year Budget Balance Forecast Errors in Select Countries

(Mean absolute error, Percent of GDP)



Source: MoF, WEO, IMF staff estimates.

Box 2.1. Strong Foundations for a Medium-Term Budget Framework

The following components serve as critical foundations for effective medium-term budget frameworks (MTBFs). It will be important to ensure these foundations are in place and tested in the process of implementing a fully-fledged MTBF in Uzbekistan.

- A clear fiscal strategy which contains precise and time-bound objectives to guide fiscal policy and budget preparation over the medium term, and against which performance can be assessed.
- Credible medium-term macroeconomic forecasts and assumptions that are used consistently across government in preparing budget forecasts, which are subject to independent verification or evaluation, and are clearly presented and explained.
- Fiscal aggregate projections with varying coverage, which are demonstrably consistent macroeconomic outlook and best available information, and are based upon credible and externally verified assumptions and methodologies.
- The performance of all forecasts needs to be assessed objectively and transparently. The reasons behind forecast errors and changes in forecasts are clearly explained and reconciled at each budget update, or more frequently.

2.1.4. Investment Projects (Basic)

56. Uzbekistan meets one of the three elements of transparency of public investment projects defined under the Code. Most major projects are now subject to competitive and transparent procurement. But, up to date estimates of the total costs of investment projects and the cost-benefit and financial viability analyses are not disclosed.

57. The value of the government's commitments under multi-annual investment projects is not disclosed in the budget. The budget contains an estimate of the state budget allocation to the State Development Plan, as well as the investment expenditures of the main EBFs, and the financing activities of the UFRD. But, these are reported for the budget year only, and not by major projects. The State Development Plan[23]— which is an inventory of centrally coordinated projects—contains information on the total cost of multi-annual projects financed

[23] The State Investment Plan was prepared and approved annually until 2016. From 2018 the State Development Plan will guide public investment prioritization and allocation. The latest plan was approved under Presidential Decree 3507, February 3, 2018, but this is not a public document.

by the UFRD as well as by government guaranteed external loans, but not budget-funded or EBF-funded projects. However, the latest plan, approved in 2018 has not been made available to the public.

58. Major projects are now subject to evaluation and approval processes, and the investment pipeline is coordinated by the State Committee for Investments. It had previously been possible for major projects to be added to the State Investment Plan by Presidential Decree or Cabinet Decisions without detailed evaluation. New project evaluation guidelines, introduced in early 2018, require detailed financial viability studies and cost-benefit analysis during the pre-approval stage.[24] The quality of this analysis is assured by the National Project Management Agency, whose endorsement is required before new projects are approved by the Cabinet and President. However, these analyses are not published which prevents a higher rating against the standards set by the Code.

59. A new procurement law requires principles of competitiveness and transparency to be applied to major investment projects with limited exceptions. The new procurement law generally applies open, competitive processes to major projects involving public sector funding, whether through the budget, EBFs, majority-owned public corporations, and foreign loans guaranteed by the government.[25] Limited exceptions apply via a list of entities approved by the President (unpublished), and also in interests of defense, national security, internal order and protecting state secrets. The law does not apply where the procedures of foreign donors would be inconsistent. The National Project Management Agency oversees compliance by relevant entities, and the responsible area has a staff of around 40 procurement professionals. A centralized public procurement portal[26] was established in May 2018, whereby procurement opportunities and outcomes are published. Expert Procurement Commissions are being established to make objective assessments of bids, and a separate Complaints Commission is proposed with well-defined processes and timeframes.

60. Reforms in public investment are ongoing and sustaining and expanding these efforts will be central to achieving better outcomes. Concerns with corruption and poor value for money under the previous framework were common, which largely explains the impetus for recent reform efforts.[27] The new legal framework, and a specialized Center for Due Diligence in Project Management and Procurement, are expected to produce stronger outcomes, but achieving more effective and efficient investment will depend on how the new framework and guidelines are implemented.

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[24] Presidential Decree No 3550 of 2018.

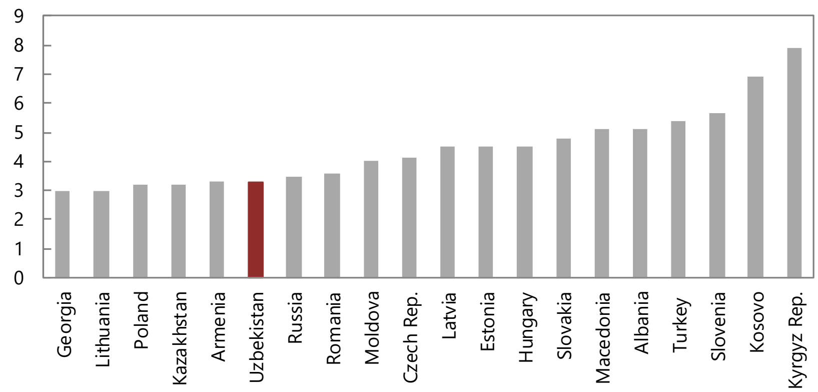
[25] Law on State Purchases, No. 472 of 2018.

[26] www.xarid.uz.

[27] A new anti-corruption law (Law No. 419 of 2017) has also been enacted.

61. **Reported general government investment in Uzbekistan, at 3.3 percent of GDP is relatively low, but this is likely under-stated (Figure 2.5).** Reported data does not capture investments financed from budget organizations' off-budget accounts. In addition, a significant share of public investment is conducted by public corporations, with estimates of total public investment around 6.7 percent of GDP in 2016.[28]

Figure 2.5. General Government Investment, 2016
(Percent of GDP)



Sources: OECD, IMF staff estimates.

2.2. Orderliness

2.2.1. Fiscal Legislation (Advanced)

62. **The Budget Code provides a well-defined framework for budget preparation and sets out the key content requirements for the budget proposal presented to parliament.** The Budget Code (Law 360 of 2013) and various related laws define the timeframes and processes for budget consideration and approval and sets out the required contents of the draft budget and budget message as well as the budget classification standards.[29] The budget proposal is presented by the executive to the parliament, along with the opinion of the COA.[30] A detailed consideration of the draft budget occurs in each chamber and its committees. While the Budget Code and related laws contemplate that parliamentary amendments may be proposed, there are no formal limits governing this (e.g., limiting amendments to rejecting or reducing spending, or proposing deficit-neutral amendments). Various reforms being considered by the government, and as proposed by this evaluation, will likely need to be accompanied by relevant amendments to the Budget Code to facilitate their successful implementation (for example, the

[28] IMF staff estimates based upon GFS reporting, financial statements of eight large joint stock companies, loans financed by UFRD, and information in the 2016 Public Investment Program on the projected value of loans guaranteed by general government.

[29] Law on Parliamentary Control No. 403, April 11, 2016; Regulations for the Legislative Chamber and Senate (Regulation N522-II, August 29, 2003; and Regulation N523-II, August 29, 2003).

[30] Decree No. 4147 of October 8, 2017 sets out the main functions of the COA. The opinion of the COA on the draft budget is not published.

medium-term framework, fiscal objectives, and degree of parliamentary scrutiny over the budget).

2.2.2. Timeliness of Budget Documents (Good)

63. The Budget Code and related laws require the draft budget to be submitted to the parliament no later than October 15 and approved no later than December 15. This timeframe has been met in each of the past five years, other than for the 2018 Budget which was approved on December 20, 2017 (Table 2.2). Prior to the 2018 Budget, only limited extracts of the budget were published, even though the details had been presented to the parliament. The full budget documentation (including the Budget Message and Annexes 1–6 containing macroeconomic forecasts, fiscal aggregate forecasts and key estimates for EBFs) was published for the first time for the 2018 Budget. The Budget Message was published following introduction of the draft budget to parliament, whereas the detailed tables were published following final approval by President.

Table 2.2. Uzbekistan: Dates of Budget Submission, Approval, and Publication

	2014 Budget	2015 Budget	2016 Budget	2017 Budget	2018 Budget
Submission to parliament	3 Oct 2013	8 Oct 2014	5 Oct 2015	3 Oct 2016	15 Sept 2017
Draft Released	np	np	np	np	21 Sept 2017
Approval by parliament	12 Dec 2013	13 Nov 2014	03 Dec 2015	13 Dec 2016	20 Dec 2017
Approval by President	25 Dec 2013	22 Dec 2014	22 Dec 2015	27 Dec 2016	29 Dec 2017
Budget Released	28 Dec 2013*	24 Dec 2014*	25 Dec 2015*	29 Dec 2016*	30 Dec 2017

Source: MoF.

Note: np denotes not published. Prior to the 2018 Budget, only extracts of the approved budget were published.

2.3. Policy Orientation

2.3.1. Fiscal Policy Objectives (Not Met)

64. The government does not have numerical objectives for the main fiscal aggregates that are precise or time bound. The Republic of Uzbekistan's National Action Strategy 2017–21 includes the objectives of: preserving balance of the state budget (although the basis for its measurement is not defined); ensuring a social orientation in expenditure; and strengthening the revenue sources and autonomy of local authorities. While the Budget Code (Articles 96 and 152) requires a limit on public debt to be determined in the annual budget, this has not yet been done. EBFs are required to maintain balanced budgets on average (taking into account their accumulated cash reserves which can be drawn upon to finance additional expenditure); and sub-national governments must also present balanced budgets (with the ability to access surplus accumulated cash balances).

65. Under planned reforms the government will prepare and submit to the parliament a medium-term fiscal policy statement and fiscal aggregate projections. This is expected to occur as part of the 2019–21 budget process. The aggregates to be covered by the fiscal policy statement and projections include revenue, expenditure, fiscal balance and public debt. 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.

2.3.2. Performance Information (Not Met)

66. The published budget documentation does not include significant information on the objectives and results of each major policy area. Substantial performance information is published on some individual projects and programs, notably on ministry websites and for projects or programs supported by donors, but this is published independently of the budget process. There is no program classification, and the output and outcome indicators used for some projects and programs are not governed by a methodology applied systematically for government expenditure as a whole. The published budget documentation presents the cost of inputs on a highly aggregated basis with some references to functional groups and administrative entities, but no systematic disaggregation by the economic or administrative classification. However, fiscal reports do provide some such disaggregation (see principle 1.3.1).

67. The government intends to introduce program budgeting comprehensively. This can be expected to lead to the systematic publication of expenditure by programs associated with output and outcome indicators, which will lead to compliance respectively with the good and advanced practices of the Code. It could be preferable for the Uzbekistan authorities to initially introduce program budgeting only for budget presentation and reporting, and not for control. The program classification, its relationships with the administrative structure, and the system of output and outcome indicators should be piloted extensively, before implementation on a staged basis, across all administrative units is considered. Box 2.2 identifies some of the key features of effective performance information that should be addressed in this piloting process.

Box 2.2. Key Features of Effective Performance Information

Each program is a logical grouping of activities directed to a common purpose

- The program classification has a sufficient number of levels for clear definition
- The program classification is homogeneous so that none of its elements is a proxy for other classifications e.g. economic, fund, administrative
- The program classification is consistent with the administrative structure
- Performance indicators are aligned with programs
- Performance indicators reflect the essence of programs
- Performance information in budget documentation is concise and accessible, with more detailed information published on line ministry websites.

2.3.3. Public participation (Not Met)

68. **The government has not previously published a citizen's budget, and the public has had limited opportunity to participate in past budget deliberations.** One notable aspect of Uzbekistan's framework is that the Budget Code does not specify when, or if, the budget must be published (see Table 2.2). In previous years, only extracts of the budget with few details were published, after its approval by the parliament, limiting the ability of the public to participate in or understand the budget process. The public currently has no formal voice in budget deliberations, but parliamentary hearings on the budget are open.

69. **The government is pursuing as a top priority the preparation of a citizen's budget designed to engage the public and civil society more closely in the budget process.** The first citizen's budget, due for release in July 2018, has been prepared as an *ex post* guide to the 2018 budget. The structure and content of the document has been prepared in consultation with civil society groups. As prepared, the citizens budget provides a useful summary of the macroeconomic backdrop in which the budget was framed, details on the breakdown of revenue and expenses, implications of certain measures for citizens such as tax rates, as well as a summary of the budget process. In future years, the government plans to release a citizen's budget when the budget is presented to the parliament. When implemented, this reform would improve the evaluation for public participation to the level of basic. Related initiatives, to create an open budget web portal for all budget information, establishing citizen's surveys on the budget and its execution, and seeking to involve citizens more closely in the budget preparation and decision-making process, would see Uzbekistan meet the advanced level practice for public participation.

2.4. Credibility

2.4.1. Independent Evaluation (Not Met)

70. **The budget does not include a comparison between the government's economic and fiscal forecasts and those of independent forecasters.** The credibility of the government's own economic and fiscal forecasts would be enhanced by presenting a comparison to external forecasts. Publishing external forecasts as part of the budget would help to illustrate the uncertain nature of forecasts, but also provide a good basis against which the government's own forecasts can be compared.

71. **There is no independent evaluation of the economic and fiscal forecasts.** The COA, which is attached to the President's Administration, provides its opinion on the draft budget, but does not appear to provide a complete evaluation of the macroeconomic and fiscal forecasts. Its opinion is not published. The COA does not prepare its own forecasts and there would usually be a negotiation to resolve any differences of opinion before the budget is presented to the parliament. The COA's audit of the government's annual report on budget execution (published for the first time in 2018 for the 2017 budget) contains no significant *ex post* analysis of the forecasts. To enhance budget credibility, several countries have established independent entities,

charged with evaluating of the government's economic and fiscal forecasts, and in some instances, preparation of independent forecasts used in the budget.

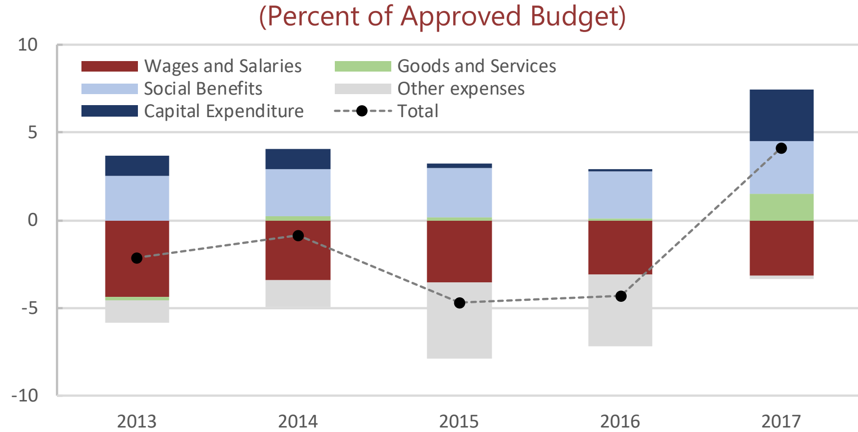
2.4.2. Supplementary budget (Basic)

72. Supplementary budgets have been used, *ex post*, to regularize spending in excess of the initial state budget allocation. The supplementary budget process has been used only once in the past five years. On December 20, 2017, the parliament authorized an increase in aggregate expenditure of 4.6 percent covering increases in the categories of public investment (27 percent), state administration (21 percent) and the Cabinet reserve fund (118 percent).

73. The Budget Code allows for large changes in the size and composition of the budget without prior legislative approval. Revenue in excess of the budget forecast can be spent without further parliamentary approval, subject to observing the approved budget balance and minimum cash reserve requirements. The Budget Code (Chapter 21) requires parliamentary approval for variations to total state budget expenditure or EBF expenditure of more than 10 percent. Smaller increases in total spending (less than 10 percent in total), and reallocations between categories of expenditure or between Ministries, can be approved by the Cabinet without being referred to parliament. The MoF authorizes lower-order budget variations, including reallocations between budgetary organizations under one Ministry. Budgetary organizations can seek the MoF's authority to reallocate within their own budgets up to four times per year, without any limit on the size of the reallocations.

74. Analysis of aggregate and compositional changes in expenditure reveals that the budget has tended to be under-executed, albeit with significant compositional changes. Figure 2.6 shows that total spending was less than budgeted from 2013 to 2016. There is a regular pattern of under-execution on wages and salaries and other expenses, with expenditure on social benefits typically higher than budgeted. In some years, the under-execution had allowed an increased allocation to capital expenditure.

Figure 2.6. Within-Year Changes in Composition of the Budget
(Percent of Approved Budget)



Source: MoF data, IMF staff estimates.

75. The credibility of the annual budget process would be strengthened by limiting within-year flexibility and requiring parliament's approval at a more detailed level. The threshold for parliamentary approval could be lowered, but the role of the parliament within the budget process could also be considered more broadly.[31] The ability to change the composition of spending without parliamentary approval could also be constrained by an explicit threshold. And, consistent with other aspects of this report and its recommendations, over time, parliamentary approval for the annual budget could potentially be done at an administrative level (e.g., by Ministry and economic function) or economic classification.

2.4.3. Forecast Reconciliation (Not Met)

76. The 2018 budget documentation does not explain changes between successive fiscal forecasts. No medium-term fiscal forecasts have been prepared to date and there is no regular mid-year update of the year-ahead forecasts. Quarterly reports on budget execution do not contain updates for the expected full year outcome, only the year-to-date actuals, and without direct comparison to the budget or budget year-to-date forecast. Under the Budget Code (Article 96) the Budget Message presented to parliament is required to contain an updated forecast of budget execution for the current year, but this was not prepared in the latest budget. Clearly presenting changes in forecasts – and decomposing the variations into policy-related, economic and other factors—can help support credibility and will take on even more importance when medium-term forecasts are presented.

2.5. Recommendations

77. There is significant scope to enhance transparency in fiscal forecasting and budgeting. Table 2.3 summarizes the assessment against the Code. A significant share of general government activity is not reported in the budget aggregates, there is no medium-term framework to guide fiscal policy making and little explanation of the macroeconomic forecasts. The government has announced intentions to address gaps in several areas, including introducing a medium-term budget framework. Table 2.4 shows how the assessment against the Code would be improved if announced plans are successfully implemented.

78. Based on the above assessment, the evaluation highlights the following priorities for improving transparency of fiscal forecasts and budgets:

- **Recommendation 2.1: Improve the comprehensiveness and quality of the budget.** Expand the coverage of the state budget by:

[31] Under the Budget Code (Article 98), the Parliament affirms: the macroeconomic forecasts; the basic parameters of revenue and expenditure of the state budget; the maximum size and sources of financing of the state budget deficit; basic parameters for the EBFs; rates of taxes and other mandatory payments; sub-national budgets and transfers; the size of minimum cash balances to be observed by each government; and the size of reserve funds.

a. Separately presenting expenditure and financing transactions and reporting aggregates for both the budget balance and overall budget balance (balance including financing transactions for policy purposes);

b. Presenting fiscal aggregates (for revenue, expenditure, budget balance, financing transactions for policy purposes, and the overall budget balance) for the consolidated budget (i.e. the State Budget and EBFs); and

c. Including in the approved State Budget, off-budget accounts and donor-financed expenditures of budgetary organizations and tax revenues retained by EBFs and PCs.

- **Recommendation 2.2: Adopt transparent principles for the planned introduction of a medium-term budget framework.**

  a. Present medium-term forecasts of the key macroeconomic variables underpinning the budget, along with a discussion of their main drivers and data quality issues.

  b. Publish medium-term projections of the main fiscal aggregates for the state budget and more detailed information on expenditure allocations.

  c. More clearly define broad fiscal objectives for the medium-term, their basis of measurement and coverage.

  d. Disclose information on publicly-funded investment projects, including their expected total lifetime costs, source of financing, and budget funding allocations over the medium-term forecast horizon.

- **Recommendation 2.3: Strengthen the integrity of the budget.**

  a. Include comparison of fiscal forecasts (revenues, expenditures, deficit and debt) with those of independent forecasters.

  b. Strengthen the scrutiny of the legislature in approving the annual budget and subsequent amendments to it.

Table 2.3. Uzbekistan: Summary Evaluation: Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance	Rec
2.1.1	**Budget Unity**	**Not Met:** The state budget covers most general government entities, but excludes significant transactions conducted by them.	**High:** Unreported spending of budgetary units of at least 3.5 percent of GDP; activities of EBFs would add a further 10 percent of GDP to consolidated expenditure.	**2.1**
2.1.2	**Macroeconomic Forecasts**	**Basic:** Budget year forecasts are presented for the main macroeconomic variables, but there is no discussion of their underlying assumptions or their main drivers.	**High:** Nominal GDP forecasts underpinning the budget have been overestimated by an average 2.6 percent over the past decade.	**2.2**
2.1.3	**Medium-term Budget Framework**	**Not Met:** The budget presents forecasts of revenue, expenditure and the state budget balance for the budget year only.	**Medium:** Budget year revenues have been underestimated by 1.3 percent of GDP, on average.	**2.2**
2.1.4	**Investment Projects**	**Basic:** Procurement is subject to principles of openness and transparency, but project assessments and their total costs are not published.	**Medium:** Public sector investment estimated at 6.7 percent of GDP for 2016.	**2.1**
2.2.1	**Fiscal Legislation**	**Advanced:** The Budget Code specifies the timetable for budget preparation, content requirements for budget documentation, and responsibilities of the executive and parliament.	**Low:** The Budget Code appears largely adhered to but will require amendments if reform plans are to be adhered to.	
2.2.2	**Timeliness of Budget Documents**	**Good:** The budget is submitted to parliament at least two months before the end of the year, and approved by the start of the financial year.	**Low:** Budgets have been routinely presented and approved within the timeframes set by the Budget Code.	
2.3.1	**Fiscal Policy Objectives**	**Not Met:** The government does not have numerical objectives for the main fiscal aggregates that are precise or time bound.	**Medium:** The state budget has recorded a surplus since 2011 and forecasts are usually exceeded.	**2.2**
2.3.2	**Performance Information**	**Not Met:** Published budget documentation does not include input information by the economic or administrative classifications.	**Low**: Development of a program classification, and output and outcome indicators should take time.	
2.3.3	**Public Participation**	**Not Met:** A citizen's budget has not been published alongside the budget, and the public has had a formal voice in past budget deliberations.	**Medium:** Budget documentation does not provide comprehensive and accessible information on how public funds are used.	
2.4.1	**Independent Evaluation**	**Not Met:** The budget does not include a comparison between the government's economic and fiscal forecasts and those of independent forecasters.	**Medium:** There has been systematic underestimation of budget revenues in the past and the transition to an MTBF warrants increased scrutiny.	**2.3**
2.4.2	**Supplementary Budget**	**Basic:** Supplementary budgets are used, *ex post*, to approve spending increases, but material changes to the budget's size and composition are allowed without Parliament's approval.	**Medium:** Only one supplementary budget has been required in past five years, but there have been material changes to budget composition.	**2.3**
2.4.3	**Forecast Reconciliation**	**Not Met:** Budget documentation does not explain changes between successive fiscal forecasts.	**Medium:** Revisions to budget year spending have averaged 3.6 percent of the original budget over the past decade.	**2.2**

Table 2.4. Uzbekistan: Evaluation of Fiscal Forecasting and Budgeting after Planned Reforms

	Principle	Government's Proposed Reforms and/or Publication of Existing Information	Practice after reform and publication
2.1.2	**Macroeconomic Forecasts**	Implement proposal to publish medium-term macroeconomic forecasts and assumptions, together with a discussion of the economic outlook, main assumptions, uncertainties etc. Include outturns and updated forecasts in the table of macroeconomic forecasts.	**Good**
2.1.3	**Medium-Term Budget Framework**	Implement proposal to present medium-term projections for key fiscal aggregates with the budget. Include outturns and updated forecasts in the table of fiscal forecasts.	**Basic**
2.1.4	**Investment Projects**	Publish summary tables and details of the State Development Program including total costs and medium-term projections for multi-year projects.	**Good**
		AND, Publish appraisal documents for all major projects.	**Advanced**
2.3.1	**Fiscal Policy Objectives**	Implement proposal to prepare and publish a medium-term fiscal strategy statement, with specific and time-bound fiscal objectives, and ensure regular reporting on performance against these objectives.	**Good**
2.3.2	**Performance Information**	Budget documentation reports performance against the outputs to be delivered by expenditure programs.	**Good**
2.3.3	**Public Participation**	Implement proposal to prepare and publish a Citizen's budget to release when draft budget is introduced to Parliament.	**Basic**
		Implement plans to provide citizens a formal voice in budget deliberations.	**Good**
2.4.1	**Independent Evaluation**	Publish comparisons between the government's economic and fiscal projections and those of independent forecasters.	**Basic**

Note: This alternative evaluation considers prospective reforms contained in published documents and the publication of readily available existing information. The timeframe considered is from 2018 to 2021, in line with the Action Plan detailed in this report. A future evaluation would need to consider the details of how any proposed reforms are implemented.

III. FISCAL RISKS

79. Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector. This chapter assesses the quality of Uzbekistan's fiscal risk analysis, management and reporting practices against the standards set by three dimensions of the IMF's Fiscal Transparency Code:

- General arrangements for the disclosure and analysis of fiscal risks;
- The reporting and management of risks arising from specific sources, such as government guarantees, public-private partnerships, and the financial sector; and

- Coordination of fiscal decision-making between central government, local governments, and PCs.

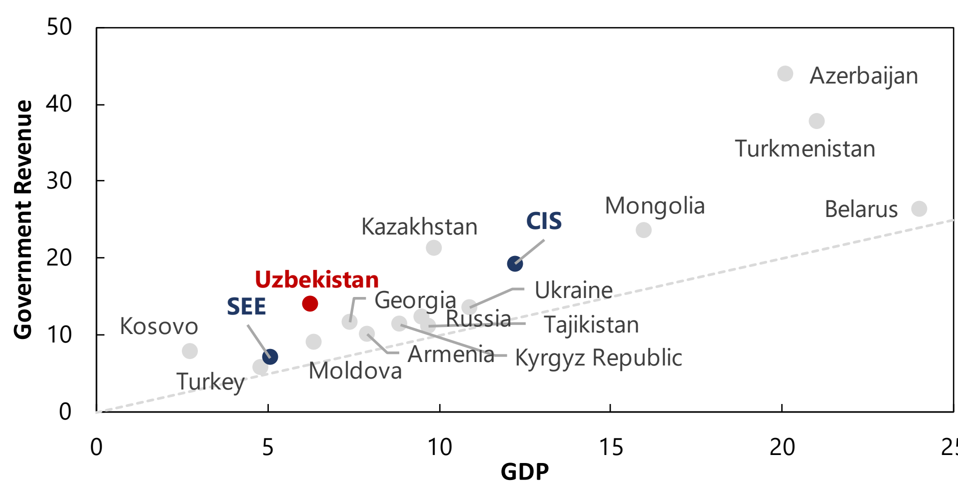
80. Fiscal risk disclosure and management is limited in Uzbekistan, but there is scope for rapid progress. The government publishes information on guarantees, the financial performance of local governments, and transfers to and from PCs, but several of the main risks are neither analyzed nor disclosed. Recognizing these gaps, the government intends to publish a statement on fiscal risks as part of its medium-term budget reforms and there is scope for relatively quick progress to made as part of this initiative.

3.1. Disclosure and Analysis

3.1.1. Macroeconomic risks (Not Met)

81. Uzbekistan has a fairly volatile economy and an even more volatile revenue base. Volatility of inflation, the exchange rate, commodity exports and remittances are key sources of fiscal risks. General government revenue volatility, which is more than double that of nominal GDP, is lower than in Commonwealth of Independent States (CIS) peers but more than the average of South Eastern European (SEE) countries (Figure 3.1). Several factors could potentially contribute to higher volatility in the future. The full impact of the recent liberalization of the exchange rate and several previously controlled prices is still unknown. So far, the provision of additional resources to PCs and public banks has helped to mitigate the impact on output, but inflation is on the rise. Externally, the high dependence on the export of commodities, such as gold, copper and gas, and on remittances from Russia, which is also exposed to commodity price shocks, can make Uzbekistan vulnerable to a combination of adverse shocks. However, the relatively low level of public debt provides some room to absorb these shocks in the medium term (Figure 3.1).

Figure 3.1. Standard Deviation of Nominal GDP and General Government Revenue Growth (Percent, 2006–17)



Source: IMF World Economic Outlook. CIS countries are Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

82. There is currently no public disclosure of how macroeconomic risks impact the public finances. Annual forecasts for GDP and inflation are published in the budget, but there is no discussion of macroeconomic risks, and no analysis undertaken of the fiscal implications of potential deviations from the central macroeconomic forecasts. As a first step, including in the budget documentation a qualitative discussion of the sensitivity of the underlying fiscal forecasts to key macroeconomic variables, such as GDP growth, inflation, the exchange rate, and commodity prices, would help to enhance understanding of the risks and credibility of the forecasts. A more advanced approach would entail analyzing the impact of changes in key macroeconomic variables (e.g., a one percent decline in real GDP, or a depreciation of the currency representing one standard deviation of past changes) on revenue, expenditure, the fiscal balance and government debt.

3.1.2. Specific fiscal risks (Not Met)

83. The government does not publish a summary report on the main specific risks to public finances. In 2018, the stock of public and publicly guaranteed debt was published for the first time on the website of the MoF and through the IMF e-GDDS portal. But, other sources of fiscal risks are generally not assessed, or disclosed. A summary report discussing the main risks to public finances, and quantifying these where feasible, could raise awareness among policymakers of the existence of such risks, and encourage discussion on the strategies to be put in place to mitigate them.

84. Analyzing and disclosing risks is particularly important, given the range of fiscal risks the public finances are exposed to. Some of these specific fiscal risks can impact revenue, and spending, while others can directly impact the government's balance sheet. Explicit risks—those where the government has made a firm commitment—relate to government guarantees on borrowing of PCs, bank deposits, and a minimum return guarantee on savings placed in the Cumulative Pension Fund. Public finances are also exposed to implicit risks, which can cause governments to step in even though they have no explicit obligation to do so. In Uzbekistan, the largest of these relate to non-guaranteed liabilities of banks and PCs. Table 3.1 summarizes the main fiscal risks, which combined create a maximum fiscal exposure of 58 percent of GDP.[32] Additional exposures also arise from natural disaster risks, long-term fiscal pressures on spending due to demographic and other factors, and risks surrounding government assets and liabilities. These are discussed in further detail in the sections below.

[32] This represents an upper limit. Several of these risks are assessed to be low, and even were fiscal risks to materialize from these sources, the fiscal impact could be partial.

Table 3.1. Uzbekistan: Selected Specific Fiscal Risks, Gross Exposure
(Percent of GDP)

Source of Fiscal Risk	2016	2017
Contingent Liabilities		
Explicit guarantees on debt of public corporations	3	7
Guaranteed Bank Deposits (net of DIF assets)	18	23
Public-private partnerships	…	…
Non-deposit bank liabilities	20	36
Of which: non-deposit liabilities of state-owned banks	13	23
Unguaranteed non-equity liabilities of non-financial PCs	17	na
Contingent Events		
Natural disasters (average annual loss)	0.5	0.5
Long term risks		
Pension costs (expected increase, 2015 to 2050)	8	8
Health care costs (expected increase, 2015 to 2050)	3	3

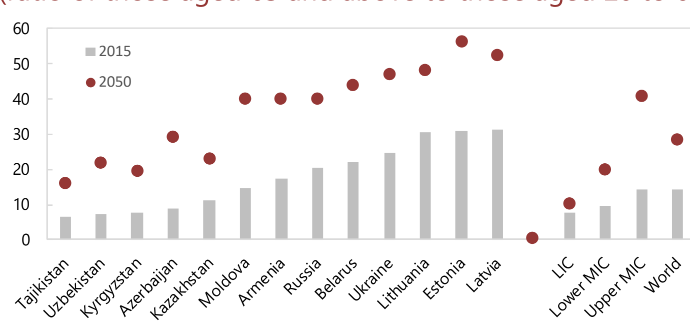
Source: MoF, IMF staff estimates.
Note: Exposures to public private partnerships were not quantified, due to lack of data.

3.1.3. Long-term sustainability of public finances (Not Met)

85. There is no regular assessment of long-term fiscal sustainability. Preparing and publishing long-term fiscal projections provides policymakers and the public insight into the sustainability of existing policies and provides an opportunity to implement earlier and smoother policy adjustments should they be required.

86. Uzbekistan will face fiscal pressures from age related spending. Although the age structure of the population is currently relatively favorable, the old age dependency ratio is expected to increase threefold over the next 30 years, from around 7 percent today, to 21 percent by 2050 (Figure 3.2). On this basis, and under the assumption of unchanged policies, spending on pensions and health care is expected to more than double between now and 2050, rising to 20 percent of GDP (Figure 3.3). Pension spending, at 15 percent of GDP in 2050, would be among the highest in the region, reflecting the generosity of the pension system.

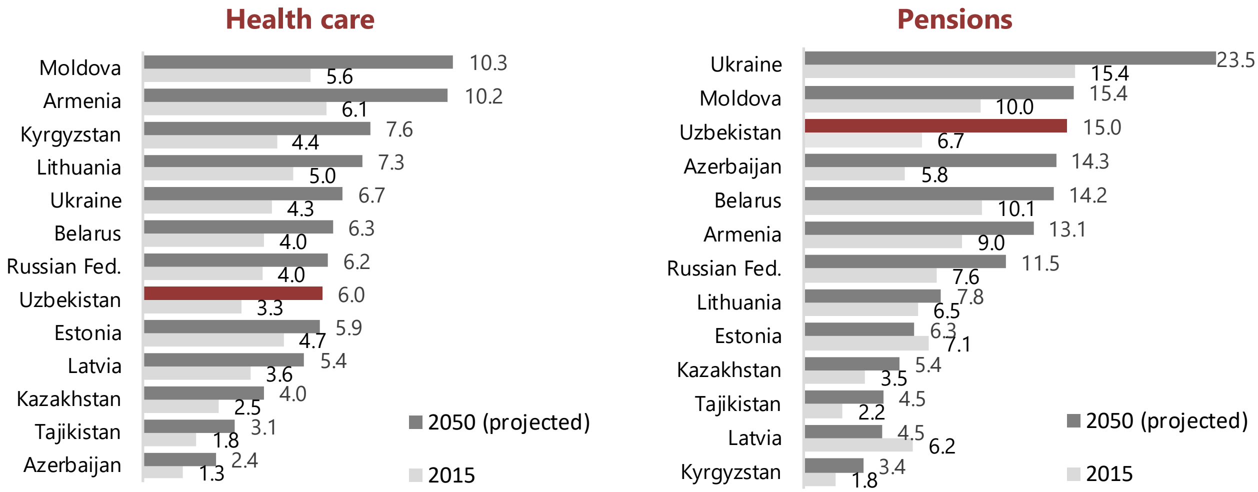
Figure 3.2. Old Age Dependency Ratios
(ratio of those aged 65 and above to those aged 20 to 64)



Source: United Nations World Population Prospects 2017. LICs: Low Income Countries; MIC: Middle Income Countries.

Figure 3.3. Projected Costs of Age-Related Spending

(Percent of GDP)



Source: IMF staff calculations, based on UN demographic projections. 2015 data are from the World Bank.

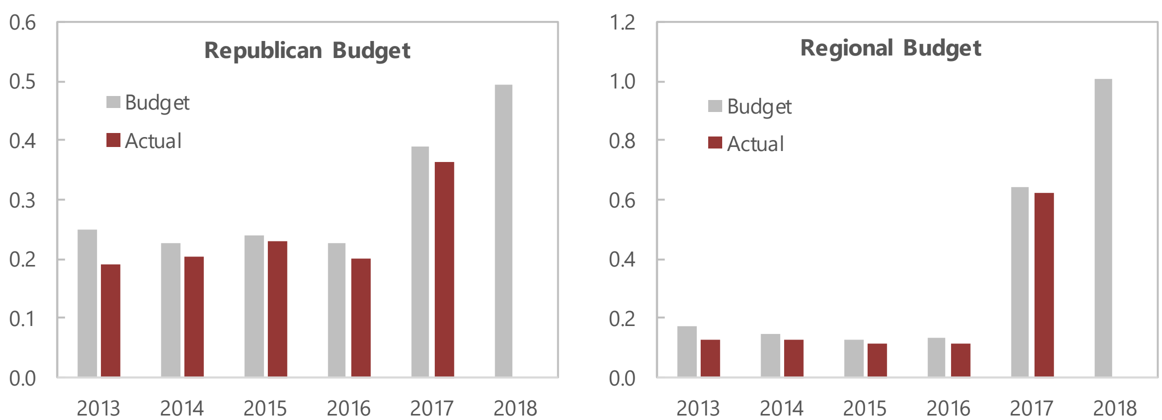
3.2. Fiscal Risk Management

3.2.1. Budgetary contingencies (Basic)

87. The budget includes a provision for contingencies. The Budget Code (Article 73) requires the establishment of unallocated budgetary reserves for the Republican budget and the regions and does not impose a limit on their size. However, a 2017 Presidential Decree mandates that the reserve allocation for regions be at least one percent of their spending. Reserves have generally been relatively modest, but have increased in size in recent years (Figure 3.4).

Figure 3.4. Budgeted and Outturn Reserve Amounts

(percentage of spending)



Source: MoF.

88. However, the Budget Code does not define clear and transparent criteria for accessing the reserve funds, and there is limited in-year public disclosure of their use. The Budget Code broadly limits the use of reserves to meet unforeseen expenditures in the "economic, social and cultural and other spheres." In practice, this means there are few restrictions on the circumstances in which these reserves can be used. While they are often used to react to urgent and unforeseen events such as natural disasters, they are also used to fund other less urgent expenditures, such as spending for minor capital projects. In a typical year, there are around 1,200 recourses to the reserve funds. While each is approved by a government resolution, published budget execution reports only disclose the aggregate amount spent.

89. While budget reserves can help manage within-year budget uncertainties, it is important they are limited so as not to undermine budget discipline and accountability. There should therefore be transparent criteria governing the circumstances under which reserves can be accessed, and more detailed reporting on the general purposes for which they are used. Box 3.1 provides examples of good practice on the use of contingency reserves.

Box 3.1. Determining a Robust Budget Reserve Framework

In the course of a year, it is natural for economic, social, environmental, and security challenges to arise. The role of a budget reserve is to ensure the necessary flexibility in budget execution in the face of uncertainty. The size of the reserve and access conditions to it matter. When reserves are too small, they can be inadequate to respond to large events, but when they are too generous, they can create the expectation that funding will be available during the year and, as a result. discourage expenditure prioritization during the budget phase. When access is not limited, the risk is that they are not used for genuine contingencies, particularly if PFM institutions are weak.

Several countries have carefully ring-fenced the use of a contingency reserve. Australia has adopted stringent restrictions on its reserve, which can be used only to deal with unexpected variations in forecast parameters and not to fund new policies. The United Kingdom and South Africa have developed a more flexible approach, that requires be used for events that satisfy the three U's: unforeseeable, unavoidable, and unabsorbable. When they can be foreseen, they should be budgeted for. When they can be avoided, their funding should be deferred for later years. When their fiscal costs are small enough, they should be absorbed within existing budgetary allocations.

Events satisfying the three U's include the repair of infrastructure damaged by disasters, the impact of a depreciation of the domestic currency, and the response to emergency national interventions. Others that do not qualify include the cost overrun of an infrastructure project due to underbudgeting, wage increases, or non-emergency maintenance of public assets.

Finland has created two types of reserves: the first for unexpected spending (true contingencies) and the second to allow spending on-ongoing long-term initiatives, which cannot be well foreseen at the time of budget preparation.

3.2.2. Management of Assets and Liabilities (Not Met)

90. Government borrowing is authorized by law, but risks surrounding government debt and assets are not analyzed or disclosed. Borrowing is governed by the Law on External Debt approved in 1996. The Budget Code empowers parliament to set a limit on state debt annually, although this has not been done in practice. While the stock of debt is published, no information on the currency composition, maturity profile, or interest rate instrument is disclosed, and risk analysis is not conducted on a regular basis. A one-off analysis of external debt sustainability, was undertaken by the UFRD in 2017 to assess the potential impact of the currency liberalization, but the results were not made public.

91. Public debt is subject to exchange rate and interest rate risks. All borrowings by the general government are in foreign currency, primarily US dollars (Figure 3.5), which makes them sensitive to changes in the exchange rate, which is relatively volatile (Figure 3.6). The government does not currently issue domestic securities. About half the external debt portfolio is in variable rate loans, making debt servicing sensitive to interest rate changes. But, debt is largely borrowed on concessional terms—the debt portfolio has an effective interest rate of around 2 percent. Reflecting the fact that most borrowing is undertaken to finance infrastructure projects, rather than meet general budget financing needs, the debt portfolio has an average maturity of 20 years. An analysis of the impact of risks related to exchange rates on the value of debt and changes in borrowing terms, as illustrated in Figure 3.7, can help ensure public finances remain sustainable in the face of adverse shocks, and help inform an appropriate medium-term debt strategy.

Figure 3.5. Currency Composition of State Debt

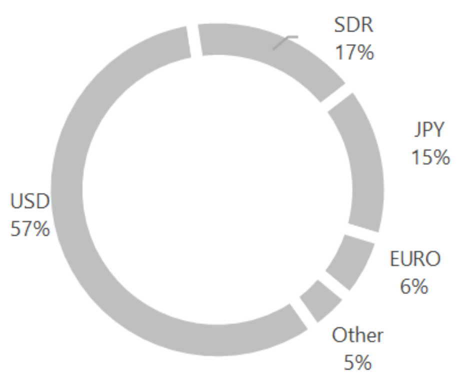
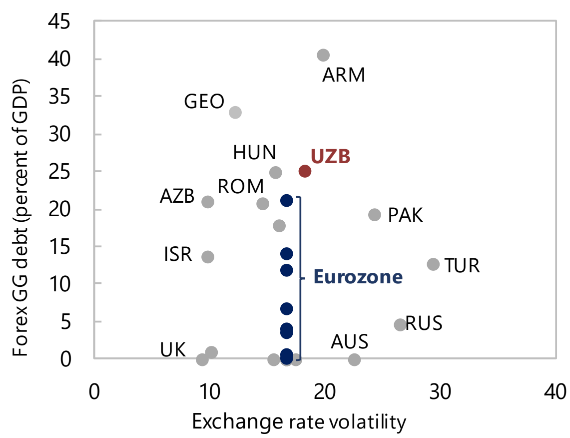


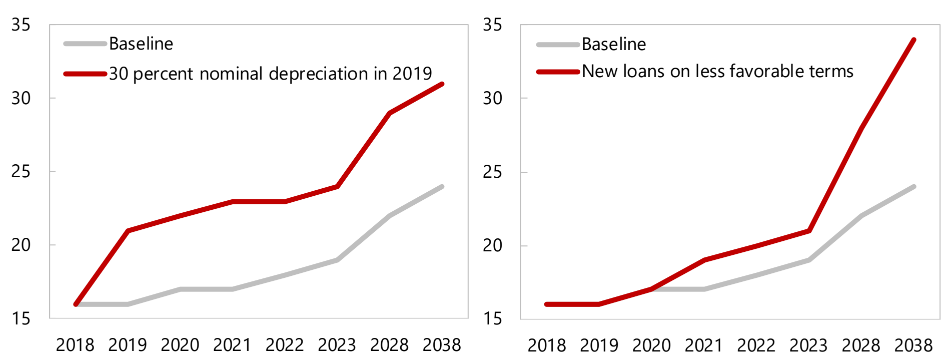
Figure 3.6. Exchange Rate Exposure of Public Debt



Source: MoF, IMF staff calculations.

Figure 3.7. Public Debt Sensitivity Analysis

(net present value of public and publicly guaranteed debt in percentage of GDP)



Source: IMF-World Bank, Debt Sustainability Analysis Report, May 2018.

92. General government financial asset holdings are significant. At the end of 2016, the general government's financial assets were estimated to be 69 percent of GDP. These mainly comprised: currency and deposits, including foreign currency deposits of the UFRD (21.7 percent of GDP); loans to PCs, including those provided by the UFRD (17 percent of GDP), and equity in public corporations (21 percent).

93. But, the government does not publish information on its assets, and there is very little discussion and analysis of the risks surrounding them.

- **Equity in public corporations**: The government reviews PC business plans and receives regular reports on their financial performance. The CMSA also reviews key financial performance indicators and compiles an efficiency indicator for entities that have a state ownership share. But, public reports do not discuss the potential risks to the government's capital or other potential implications for public finances (see principle 3.3.2).
- **Government on-lending**: The public external debt report includes, within it, loans that are contracted by the government and subsequently on-lent to PCs for investment purposes, but risks surrounding these assets are not discussed. Fiscal risks can materialize from these loans, in the event PCs are unable to meet their debt servicing obligations.
- **UFRD Assets**: These include foreign exchange deposits managed by the CBU, loans, primarily to PCs (placed through state owned banks) to implement specific development projects, and equity in banks associated with past decisions to recapitalize them to buffer the effects of the exchange rate depreciation. More recently, the UFRD has begun extending credit lines to banks, which in turn are on-lent to support development in particular sectors. This exposes the UFRD to bank credit risk, although the size of credit lines are currently small. The UFRD undertakes credit risk analysis on all lending, and analysis of other risks to its asset portfolio as part of preparation of annual financial statements, but these are not published. Publishing the annual report and financial statements for the UFRD would enhance transparency.

94. Preparing a financial balance sheet will help support better management of the government's assets and liabilities. Importantly, it can help identify net exposures that need to be managed. The value of assets and liabilities can change, and these changes could be correlated. A depreciation of the currency, for instance, will increase the value of assets (currency holdings) and liabilities (external debt). It can, in addition, affect the financial position of PCs. A financial balance sheet can support the government to assess the risks to its overall portfolio and decide on appropriate risk management strategies, including the appropriate level of risks it is willing to bear.

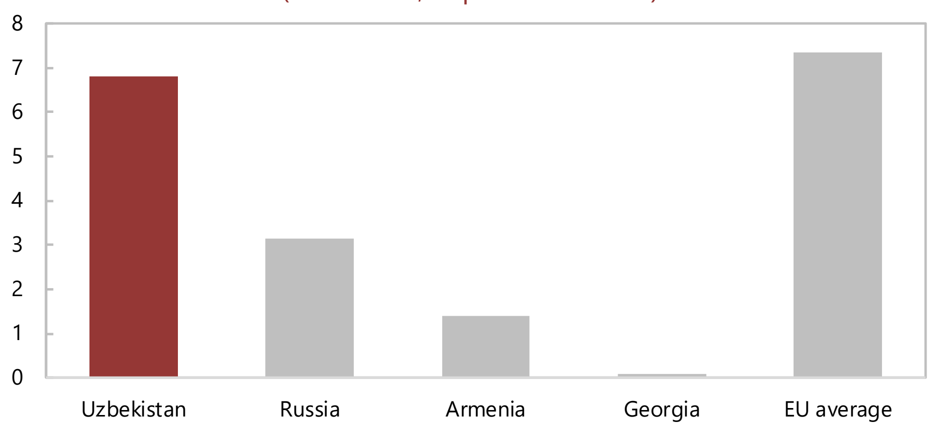
95. The government also has large subsoil assets, the value of which is highly uncertain. Their value, and risks surrounding them, are neither disclosed nor assessed. Because of the volatility of natural resource prices, particularly over long-term horizons, analysis of their value under different price scenarios can help inform policy frameworks for their management (see principle 3.2.6 for further discussion).

3.2.3. Guarantees (Not Met)

96. Information on the outstanding stock of external loan guarantees, which stood at 6.8 percent of GDP at end-2017, is published, but not by individual beneficiary. In 2018, the government published, for the first time, information on the total stock of guarantees on external loans of PCs, by broad type of lender (multilateral, bilateral, and commercial banks). There are around 300 guarantees granted to various entities, 27 of which pay a fee. Recently, the government has started providing guarantees on domestic loans, on which it does not report publicly, although the stock of domestic loan guarantees remains very small (0.004 percent of GDP in 2017). All guarantees are approved by the MoF, and by President Resolution. While Cabinet of Ministers Resolution No. 543 of 2003 requires that guarantees be included in the external debt limit set annually by parliament, in practice, no such limit is set. Guarantees issued by the government are high relative to other countries (Figure 3.8), but so far, none have been called.

Figure 3.8. Loan Guarantees

(latest data, in percent of GDP)



Source: IMF staff estimates. Data are from publicly available sources. All EU data are from Eurostat.
Year: Uzbekistan - 2017, Russia - 2013, Armenia -2017, Georgia – 2016, EU; 2016.

3.2.4. Public-private partnerships (Not Met)

97. PPPs are a low, but growing, fiscal risk. Up until recently, the involvement of the private sector in providing public infrastructure assets or service has been rare in Uzbekistan, but this is changing rapidly. The Uzbekistan Development Strategy for 2017–21 and recent Presidential decrees emphasize the need for private sector involvement in the provision of public infrastructure. Already, a number of private pre-schools operate as PPPs, where private operators construct and operate these, under concessional arrangements provided by the State, such as land and co-payment of fees. Plans are under way for the state-owned national power utility, Uzbekenergo, to construct and operate a solar plant under a PPP arrangement with a foreign company. The health care sector is another area where the government is actively trying to leverage private sector know-how - current plans are to develop several diagnostic and outpatient centers in the country to reach 300,000 people a year.

98. Work is currently underway to put in place a framework for managing PPPs. The government has prepared a draft PPP law, which is expected to be submitted to Parliament later this year. While PPPs can be an effective means to deliver public services and facilitate development, they can also entail considerable risks, which should be analyzed, monitored, and disclosed. The inherent complexity of PPP arrangements can mask future obligations for governments, and encourage recourse to PPPs to circumvent traditional budget constraints. Successful PPP frameworks embed a role for the MoF to assess the budget affordability and fiscal risks associated with PPP projects prior to their approval, requires that all projects be subject to cost-benefit analysis and value for money assessments, along with the disclosure of PPP obligations (both explicit and contingent) through publication of a PPP registry.

3.2.5. Financial sector (Not Met)

99. The government has significant explicit exposure to the financial sector, which is not disclosed. All bank deposits are fully guaranteed. The government has provided a blanket guarantee to deposits placed at the Xalq (People's) Bank, while a deposit insurance fund, financed by a mandatory contribution from deposit-taking banks, covers all deposits held at the other 27 banks. The net exposure of the government, both through the explicit blanket guarantee and the DIF, amounted to 23 percent of GDP in 2017 (Table 3.2). In addition, the government has guaranteed a minimum return on savings placed with the Cumulative Pension Fund, at the rate of inflation. Eleven of the banks are also state-owned, with combined liabilities of 34 percent of GDP.

Table 3.2. Uzbekistan: Financial Sector Exposure, 2016 and 2017

	2016		2017	
	UZS	percent of GDP	UZS	percent of GDP
Total bank liabilities	75,094	38	145,956	59
Of which: Insured Bank deposits	36,341	18	58,668	24
Assets of Deposit Insurance Fund	469	0.24	591	0.24
Net exposure	**35,872**	**18**	**58,077**	**23**

Source: Central Bank of Uzbekistan.

100. Reported financial soundness indicators of banks remain strong, following liberalization, but risks remain (Table 3.3). Banks remain well-capitalized and profitable. The capital adequacy ratio of banks overall is more than double the regulatory minimum, and non-performing loans have remained low (Table 3.3). Government equity injections, through the UFRD, have helped banks absorb the impact of the currency depreciation on their domestic currency operations, and extend credit to PCs which are indebted in foreign currency. In 2017, the equity injections amounted to around 2.5 percent of GDP. Concentration risks are high; the three largest banks, which are all state owned, provide around 60 percent of loans in the economy (Figure 3.9), a high proportion of which are to PCs.

101. The government does not publish regular assessments of financial stability, but efforts are underway to do so. While the CBU publishes financial soundness indicators of the banks on a quarterly basis, and its annual report contains information on the performance of banks and the DIF, it does not assess the stability of the banking sector. It is currently developing a methodology for stress testing, and over time, intends to develop and publish regular reports on financial stability.

Table 3.3. Financial Soundness Indicators

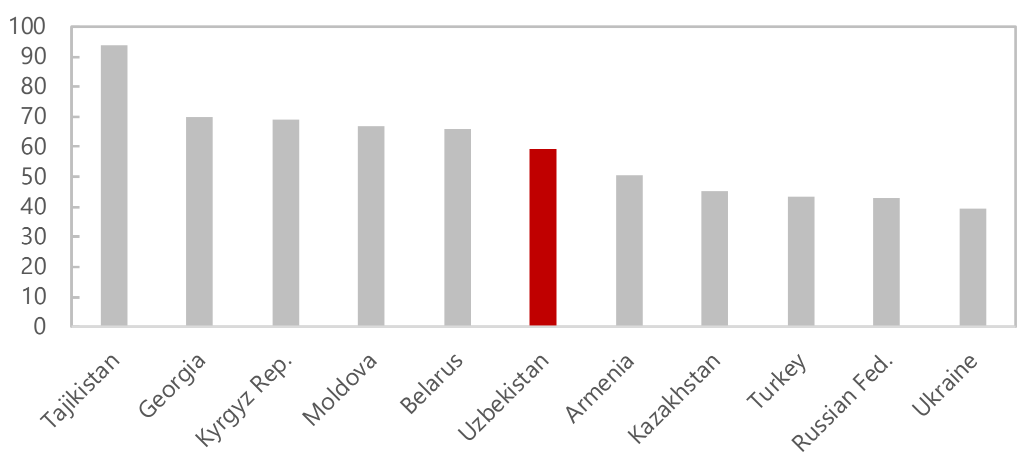
(percentage)

	Regulatory Capital to Risk-Weighted Assets	Non-performing Loans to Total Gross Loans	Return on Assets	Return on Equity	Liquid Assets to Short Term Liabilities	Net Open Position in Foreign Exchange to Capital
Uzbekistan	**19.6**	**1.2**	**2.0**	**15.6**	**53.2**	**13.4**
Armenia	18.8	6.8	1.1	7.1	141.8	0.1
Belarus	18.5	12.9	1.8	12.1	60.2	3.0
Georgia	19.4	2.8	3.1	23.5	31.7	4.2
Kazakhstan	16.3	12.7	-0.4	-3.3	91.5	-0.2
Kyrgyz Rep.	24.2	7.7	1.2	7.1	69.0	2.4
Moldova	30.7	17.0	2.5	14.3	160.4	-6.3
Russian Fed.	12.1	10.0	1.0	7.9	167.4	2.2
Tajikistan	16.1	19.1	2.6	18.5	82.3	0.3
Turkey	16.8	2.8	2.0	18.8	74.3	0.7
Ukraine	16.1	54.5	-1.8	-15.3	98.4	89.6

Source: FSI indicators for Uzbekistan are from March 2018 published by the Central Bank of Uzbekistann; FSI indicators for other countries: IMF FSI Database April 2018.

Figure 3.9. Bank Concentration Ratio

(Assets of three largest banks as a share of total bank assets)



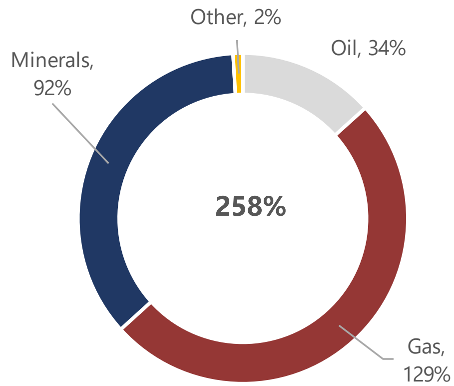
Source: World Bank Global Financial Development Database.

3.2.6. Natural resources (Not Met)

102. Uzbekistan is highly endowed with fossil fuel and mineral resources. Proven reserves of oil, gas and minerals represent close to 260 percent of GDP (Figure 3.10), although there is considerable uncertainty around these estimates.[33] Oil and gas extraction rates are currently small in relation to reserves, with production geared essentially for the domestic market, but investment is under way to accelerate the production of natural gas. With an estimated reserve of close to 2,000 tons, gold extraction has increased considerably in recent years. Gold exports now represent around 7 percent of GDP (Figure 3.11). While Uzbekistan possess coal resources, extraction is currently negligible, and is likely to remain low in the foreseeable future

Figure 3.10. Proven Reserves of Fossil Fuel

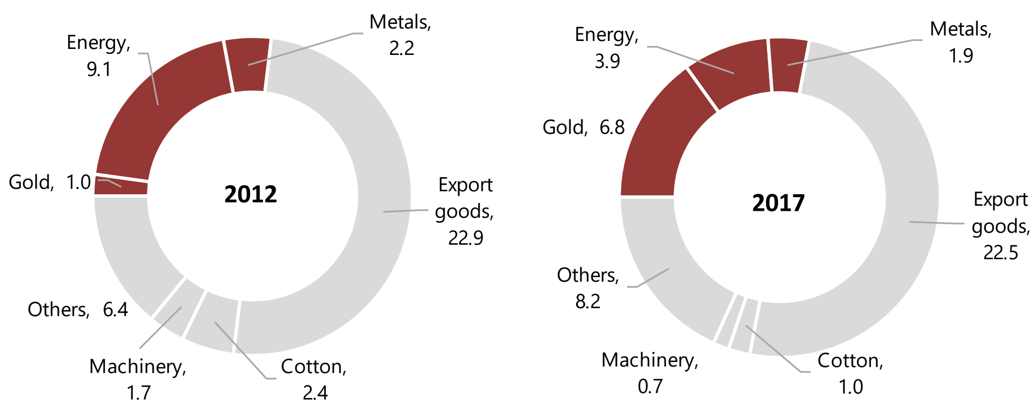
(Percent of GDP)



Source: Data on proven reserves are from the BP Statistical Bulletin 2017. Prices are based on the average prices for 2000–16 from the following markets: Russian in Germany (gas), Dubai Brent Crude (oil), and Australia export (coal).

Figure 3.11. Composition of Exports

(Percent of GDP)



Source: IMF staff estimates.

[33] See World Bank (2018), "The Changing Wealth of Nations." The World Banks estimates include only a small value of coal resources.

103. Information on the known reserves of fossil fuel are published annually, but estimates of their value are not reported. The State Committee on Mineral Resources and Geology publishes annual information on the proven reserves for oil, gas and coal, but not estimates of their value. Estimates of proven gold reserves are also not disclosed, as they are considered to be confidential.

104. Information on the main sources of fiscal revenue in the extractive industries is dispersed across different documents. In the oil and gas sector, Uzbekneftegaz, which is the sole operator in Uzbekistan, publishes in its annual financial statement, its contribution to the government in the form of taxes and dividends. The government also publishes information on the tax revenues it collects on the extraction of gold and copper, which amounted to 1.4 percent of GDP in 2017. However, the main source of revenue to the government results from the difference between world prices, and a set (lower) cut off price on gold and copper that it, as the monopsonist, pays to producers. This income is primarily allocated to the UFRD, which only reports its total revenues in aggregate.

105. Reliance on natural resources poses fiscal risks, and comprehensive disclosure on stocks and flows can encourage debate on how to address these risks. The challenges of managing resource revenues arise from their volatility, their size relative to domestic absorption, and their finite nature. Volatility can lead to "boom and bust" cycles in fiscal policy, large inflows of foreign currency can undermine competitiveness (a phenomenon known as "Dutch disease"), and finiteness can make fiscal policy unsustainable in the long term. An additional challenge is how to effectively use resource revenue to build productive capacity and close the infrastructure gaps. In Uzbekistan, these challenges have partly been addressed in the design of the UFRD, which has traditionally shielded the state budget from price fluctuations and used its revenue for investment. Publishing information on stocks and flows can, however, encourage public deliberation and debate over the choices to be made to address the issue of long run sustainability and intergenerational equity.

3.2.7. Environmental risks (Basic)

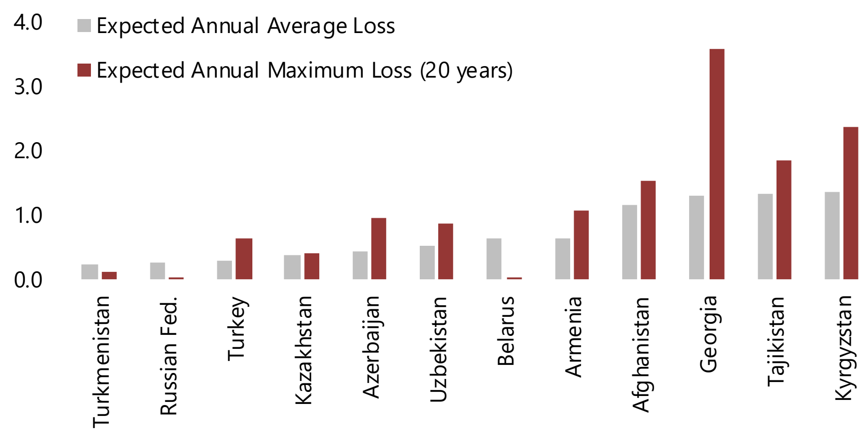
106. The main fiscal risks from natural disasters are disclosed in government resolutions and state programs, and a robust framework is in place to respond to emergencies. The risks associated with floods, mudflows, avalanches and landslides are discussed in various COM Resolutions, which also establish frameworks for responding to these disasters.[34] The Ministry of Emergency Situations and the State Committee on Ecology and Environmental Protection is responsible for coordinating the efforts at the national and regional levels, and access to appropriate material and financial reserves to respond effectively. Risks with earthquakes, response and proactive actions to mitigate their impact are discussed in the 2006 State Program on Earthquake Risk Reduction, and 2011 Program on the Preparedness of the Population to Respond Emergency Situations Caused by Earthquakes. Overall, there is significant degree of

[34] COM Resolution No. 585 of 2007 and No. 242 of 2011.

preparedness in Uzbekistan to cope with natural disasters compared. However, there is no quantification and publication of the fiscal costs of natural disasters—doing so would allow discussion on the various options available to finance and prevent disaster (e.g., establishing budget provisions vs. buying disaster-related insurance).

107. On average, the economic loss related to natural disasters is not particularly high, but rare events, such as earthquakes, have been costly. In Uzbekistan, landslides, floods, and mudflows occur frequently. These are estimated to cost, on average, 0.5 of GDP a year. (Figure 3.12). However, earthquakes, though infrequent can have significantly larger human economic, and fiscal costs, as more than half of the population lives in areas of high seismic risk. Since 1955, Uzbekistan has experienced 11 earthquakes above six in magnitude.

Figure 3.12. Average Annual Loss from Natural Disasters (AAL)
(in percentage of GDP)



Source: UNISDR disaster data and statistics.

3.3. Fiscal Coordination

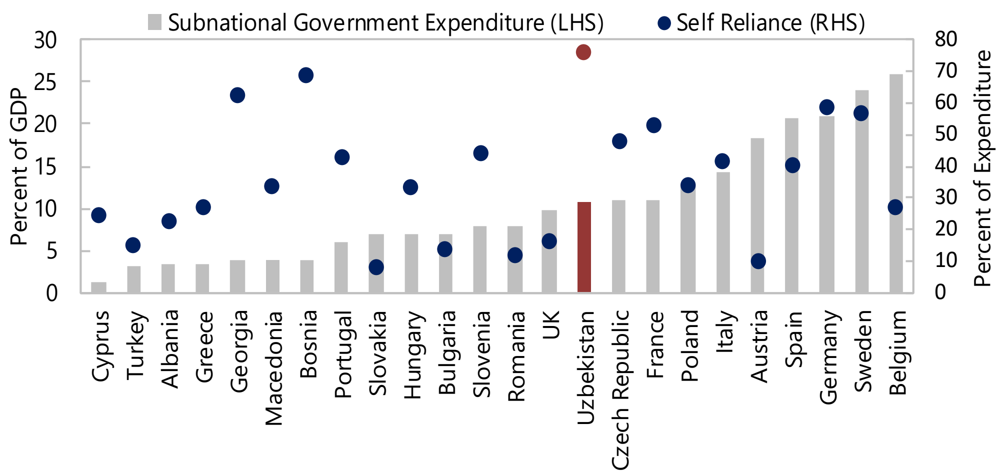
3.3.1. Sub National Governments (Good)

108. Information on the financial performance of sub-national governments is published in aggregate, and by individual region. GFS data published on the E-GDDS portal contains information on their aggregate revenue and expenditure of sub-national governments. Budget allocations for the Republic of Karakalpakstan (which is an autonomous sub-national within Uzbekistan), and the twelve oblasts (regions) have recently been published for the first time in 2018 by the MoF, alongside data available on their in-year revenue collections and spending by broad category. In addition, regions publish quarterly and annual budget execution reports, following approval from their regional parliaments.

109. Fiscal risks are mitigated by the requirement of a balanced budget, and their relatively large revenue base. The Budget Code requires sub-national governments to balance their budgets, although they are permitted to utilize excess cash balances, accrued from prior year surpluses, to finance additional expenditures.[35] In general, borrowing by sub-national governments is prohibited by the Budget Code, but they can borrow from the MoF to address temporary within-year liquidity gaps. In addition, there is strong central oversight by the MoF. Sub-national government financial activities are included in the treasury single account, and the MoF prepares, approves and executes their budgets. While subnational governments are important—their expenditure at around 10 percent of GDP accounts for about a third of general government expenditure—they also have a large own revenue base (Figure 3.1.3). More than three-quarters of their revenue comprise either internally generated revenues or automatic transfers of state collected revenues.

Figure 3.13. Size and Self-Reliance of Sub-National Governments, 2016

(Percent of GDP)



Source: IMF Government Finance Statistics.

3.3.2. Public Corporations (Basic)

110. PCs are dominant in the certain key sectors of the Uzbek economy. There are around 2,100 PCs in Uzbekistan, including 107 joint stock companies (JSCs) with majority state participation, around 500 limited liability companies (LLCs) and 1,500 unitary enterprises (UEs).[36] According to estimates, output of fully-owned PCs account for 55 percent of the country's GDP. Major nonfinancial PCs occupy dominant positions in the strategic sectors of the economy (mineral extraction, electricity, oil and gas, telecommunication and transportation). State-owned banks provide more than 80 percent of loans in the economy. PCs undertake considerable quasi fiscal activities on behalf of the government; non-financial PCs provide goods and services at

[35] In practice, this means regions are required to run balanced budgets on average, as spending financed from drawing down cash balances would be reported as a budget deficit in accordance with international statistical and reporting standards.

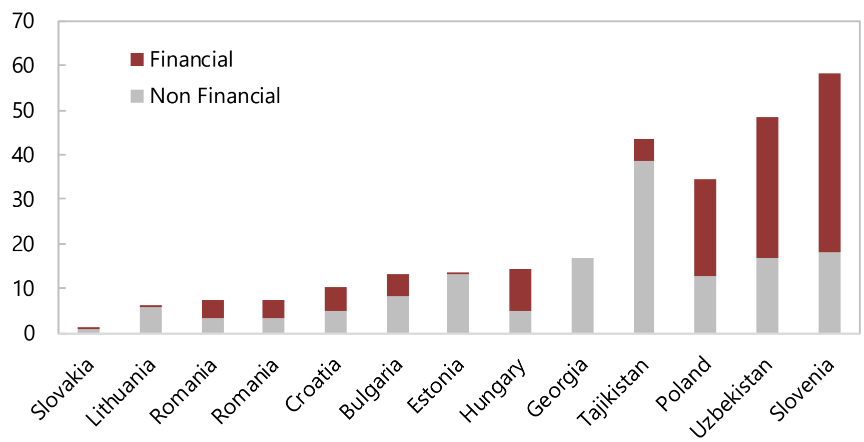
[36] Major PCs operate at the national level, and therefore fall under the control of the central government. There are some (e.g. in public transport, and water management) which are controlled by sub-national governments.

controlled prices to consumers, while state owned banks provide concessional loans to strategic sectors of the economy.

111. PCs represent an important fiscal risk in Uzbekistan. The non-equity liabilities of the eight largest non-financial and state-owned banks (excluding the CBU) totaled 17 and 31 percent of GDP respectively at end-2016 (Figure 3.14).[37] The majority of state-owned bank liabilities are in the form of deposits. At end-2016, PC liabilities of around 5 percent of GDP is borrowing on-lent from the central government, while a further 3 percent of GDP is loans guaranteed by government.[38] Liabilities are concentrated in three of the main nonfinancial PCs (Figure 3.15). Overall, the nonfinancial PC sector was profitable in 2016, but there were some significant loss makers. Risks around their future performance could increase, as reforms are underway to increase the competitiveness of many of the markets in which PCs operate.

112. Direct transfers between the government and PCs are published regularly, but there is no published ownership policy. The GFS tables published for the first time in 2018 disclose transfers to and from PCs, in the form of subsidies and dividends. These are negligible in size, at less than 0.1 percent of GDP. Information on indirect transactions is not comprehensive. For example, guarantees to PCs are disclosed in aggregate, but not by the individual PC benefiting from them. Recapitalizations, which have been provided to both financial and nonfinancial corporations in the past are not disclosed. Further, there is no published document that lists the enterprises in which the state has participation, the extent and rationale for state participation, as well as their economic and social objectives.

Figure 3.14. Liabilities of Public Corporations in Select Countries
(Percent of GDP)

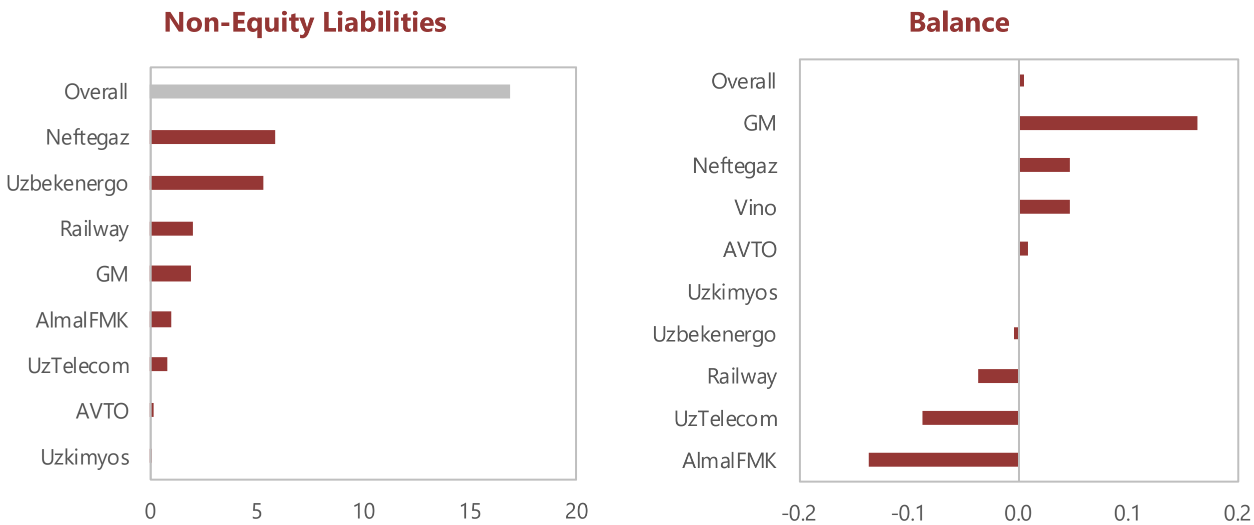


Source: Eurostat for EU countries; non-consolidated liabilities. IMF staff calculations for other countries.
Note: Data on non-financial PCs for Uzbekistan are for eight of the largest companies only, for which financial statements were available, and is not consolidated. For Uzbekistan, financial PCs data excludes the CBU.

[37] Figures do not consolidate cross-holdings between those PCs and the state-owned banks, although they are not large.

[38] At end-2017, central government on-lending to PCs had increased to 13 percent of GDP, while government guarantees on PC borrowing had increased to 7 percent of GDP.

Figure 3.15. Financial Position of Select Nonfinancial Public Corporations, 2016
(Percent of GDP)



Source: IMF staff calculations based on individual PC financial statements.The balance is calculated using the GFS methodology. GM - General Motors Uzbekistan.
Note: Balance refers to revenues less expenditures.

113. There is no consolidated report on the overall performance of the sector. JSCs are required to publish their financial statements on an open data portal, but some major ones do not (e.g., Uzbekistan Airways, and Navoi), and they are not always comparable. All JSCs (with the exception of the eight largest which are monitored by NAPU), major LLCs and UEs are monitored by the Center for the Management of Assets (CMSA), to which they are required to submit a set of 13 mandatory key performance indicators annually, which are used by the CMSA to recommend changes in the remuneration of the PC management to its Board. In addition, all PCs submit quarterly reports on their performance to the MoF, the State Tax Committee, and the State Committee on Statistics. The availability of information suggests that it should be possible to compile aggregated information on the financial position of the PC sector and undertake regular assessments of its performance and potential risks

3.4. Recommendations

114. There is significant scope to enhance analysis, reporting and management of fiscal risks. While there are strong controls on local government borrowing and disclosure of aggregate information on guarantees provided by the government, several of the most important sources of fiscal risk are neither assessed nor disclosed (Table 3.4).

115. Based on the above assessment of current practices, the evaluation highlights the following priorities for improving the transparency of fiscal reporting:

- **Recommendation 3.1: Improve analysis and disclosure of fiscal risks.** Establishing a framework for monitoring, analyzing and disclosing fiscal risks and publish an annual statement on fiscal risks, including discussion and analysis of:

- The main sources of macroeconomic risks and their implications for public finances, focusing initially on qualitative discussion and expanding disclosure over time to include analysis of the sensitivity of the fiscal forecasts to changes in core variables;
- Risks to the public-debt and the main public assets (e.g. natural resource assets, loans and assets of the UFRD), supplemented by publication of UFRD annual reports;
- Material explicit fiscal risks (e.g., guarantees, and the deposit insurance scheme), setting out estimates of their magnitude and the government's strategy for managing them; and
- Fiscal risks related to PCs, including an assessment of their financial position and performance, information on their transactions with government, and estimates of the fiscal costs of their quasi-fiscal activities.

- **Recommendation 3.2: Tighten criteria for drawing on budget contingency provisions.** Establish a clear set of criteria for drawing on budget reserves, by limiting these to expenditures that are demonstrated to be unforeseeable, unavoidable, and unable to be absorbed, publish, in quarterly and year-end budget execution reports, information on the purposes for which funds are drawn by broad category, and establish limits on their size in the Budget Code.

- **Recommendation 3.3: Enhance financial oversight of public corporations.** Establish a central database of core financial information, risk indicators and state support for public corporations to facilitate assessment of fiscal risks related to the sector, and require public corporations to report their quasi-fiscal activities.

Table 3.4. Uzbekistan: Summary Evaluation: Fiscal Risks

	Principle	Rating	Importance	Rec
3.1.1	**Macroeconomic Risks**	**Not Met:** Budget documentation does not discuss the sensitivity of fiscal aggregates to changes in major macroeconomic assumptions.	**High:** Relatively volatile economy, with a standard deviation of nominal growth and revenue of 6 and 14 percentage points.	**3.1**
3.1.2	**Specific Fiscal Risks**	**Not Met:** A summary report of specific fiscal risks is not published.	**High:** Specific fiscal risks carry a maximum exposure of 58 percent of GDP.	**3.1**
3.1.3	**Long-term Fiscal Sustainability**	**Not Met:** No analysis of long-term fiscal sustainability is undertaken or published.	**Medium:** Age related spending is projected to double between now and 2050.	
3.2.1	**Budgetary Contingencies**	**Basic:** The budget contains allowances for uncertainties that may arise during the year, but there is no clear access criteria or in-year reporting on its use.	**Medium:** Budget contingencies have been relatively modest in the past, but have been growing.	**3.2**
3.2.2	**Asset and Liability Management**	**Not Met**: Risk surrounding the government debt portfolio and state assets are not reported.	**Medium:** Government debt is relatively modest at 17.5 percent of GDP, but assets are significant.	**3.1**
3.2.3	**Guarantees**	**Not Met:** Information on the stock of guarantees is reported, but not their beneficiaries.	**Medium:** Debt guarantees are 6.8 percent of GDP in 2017, but so far, none have been called.	**3.1**
3.2.4	**Public-Private Partnerships**	**Not Met:** Total rights, obligations, and other exposures under PPP contracts are not reported.	**Low:** Large-scale PPPs have rarely been implemented in the past, but activity may ramp up with the development of a PPP framework.	
3.2.5	**Financial Sector Exposure**	**Not Met:** Explicit support to the financial sector is not disclosed, and financial stability assessments are not published.	**Medium:** Net exposure for insured deposits is 23 percent of GDP in 2017, but the banking system is well capitalized and has remained relatively resilient to recent stresses.	**3.1**
3.2.6	**Natural Resources**	**Not Met:** The government publishes estimates of the volume of some of its major natural resource assets, but does not report their value.	**Medium:** Proven reserves of coal, oil and gas are around 300 percent of GDP, and gold reserves comprise a further 100 percent.	
3.2.7	**Environmental Risks**	**Basic:** Various documents discuss risks related to natural disasters, but potential fiscal costs are not quantified.	**Low:** Average annual loss from natural disasters has averaged 0.5 percent a year.	
3.3.1	**Sub-national Governments**	**Good:** Information on the financial performance of regions is published quarterly, and there are restrictions on their borrowing.	**Low:** Subnational governments are not permitted to borrow, other than from the central government, and their financial performance is closely monitored.	
3.3.2	**Public Corporations**	**Basic:** Budget transfers to and from PCs are disclosed in GFS reports, but they are not based on a published ownership strategy and there is no consolidated report on the financial performance of the sector.	**High:** Liabilities for eight of the largest non-financial PCs were around 30 percent of GDP at end-2016, although some of their liabilities are owed to the government.	**3.3**

Table 3.5. Uzbekistan: Evaluation of Fiscal Risks after Planned Reforms

	Principle	Government's Proposed Reforms and/or Publication of Existing Information	Practice after reform / publication
3.1.1	**Macroeconomic Risks**	Implement proposal to prepare and publish a fiscal risk statement, including an analysis of the sensitivity of budget forecasts to macroeconomic assumptions.	**Basic**
3.1.2	**Specific Fiscal Risks**	Implement proposal to prepare and publish a fiscal risk statement and include quantitative estimates of the main specific fiscal risks.	**Good**
3.2.2	**Asset and Liability Management**	Implement proposal to prepare and publish a fiscal risk statement, including analysis of risks relating to the government's debt holdings.	**Basic**
3.2.3	**Guarantees**	Publish available information on the stock of guarantees by beneficiary.	**Basic**
		Implement COM resolution 543 (2003) to establish annual limits for the maximum value of new guarantees.	**Good**
3.2.5	**Financial Sector Exposure**	Publish internal information quantifying explicit support to the financial system.	**Basic**

Note: This alternative evaluation considers prospective reforms contained in published documents and the publication of readily available existing information. The timeframe considered is from 2018 to 2021, in line with the Action Plan detailed in this report. A future evaluation would need to consider the details of how any proposed reforms are implemented.

Appendix I. Government Fiscal Transparency Action Plan (2018–21)

Recommendation	2018	2019	2020	2021
1.1. Expand the coverage and comprehensiveness of fiscal reports				
a. Expand the coverage of fiscal reports, by including transactions of all central and sub-national government EBFs, off-budget accounts, and non-market entities in GFS reports.	Report all revenues, expenditures and financing of general government units, including their off-budget accounts, externally-financed activities, and EBFs in GFS reports. Initiate review on the classification of entities currently reported as PCs, to classify them in line with internationally accepted criteria (as defined in GFSM 2014 and SNA 2008).	Develop and publish a comprehensive and up-to-date list of general government units and PCs.	Finalize review on the classification of entities currently reported as public corporations, and adopt, as the basis for fiscal and statistical reporting classifications in line with internationally accepted criteria (as defined in GFSM 2014 and SNA 2008).	Ensure that all the revenues, expenditures and financing of non-market entities currently treated by the government as public corporations are included in fiscal reports including budget execution and GFS.
b. Appropriately record retained tax revenues of state targeted funds and public corporations as central and local government revenues.		Conduct an inventory of all retained tax revenues of state targeted funds, extra-budgetary funds and public corporations.	Report all tax revenues of extra-budgetary funds and those retained by public corporations as central or local government tax revenue.	
1.2. Publish balance sheet information for the general government.				
Publish a statistical report on financial assets, liabilities, and non-financial assets for the general government on a regular basis.	Publish a statistical report on cash deposits, loans granted and debt liabilities of central and local budgetary units.	Publish all financial assets and liabilities for central and local government budgetary units and EBFs (including, receivables and payables).	Further expand the report to include information on non-financial assets.	Develop a work plan to improve the valuation of assets and liabilities to be reflected at market prices in line with internationally accepted criteria, as part of the broader agenda to develop IPSAS based financial statements.
1.3. Publish an annual statement on tax expenditures.				
Publish an annual statement on the revenue forgone from tax expenditures.	Review the quality of information collected on tax exemptions and privileges and agree methodology for reporting tax expenditures.	Publish a summary report of the aggregate revenue forgone from customs and tax expenditures, by main tax category.	Expand the report to include a description of the main policy objectives and beneficiary groups.	

Recommendation	2018	2019	2020	2021
1.4. Enhance the quality, comparability and integrity of fiscal reporting.				
a. Expand the presentation of fiscal information in fiscal reports, and improve budget classifications to bring them closer to international guidelines.	Undertake analysis of the main gaps between current fiscal reporting by economic classification and GFSM 2014.	Present GFSM 2014 economic classifications in budget execution reports in line with GFSM 2014. Include information on revenues and spending by administrative unit in quarterly and the annual state budget execution report for 2019.	Improve the existing functional classification in budget execution reports to bring them into full compliance with international guidelines.	
b. Explain and reconcile differences in the main fiscal aggregates across fiscal and statistical reports.	Publish an explanatory note on the MoF website explaining the core differences in treatment of revenues, expenditure, financing and the budget deficit between the GFS and budget execution reports.		Include a section in the annual state budget execution report for 2020 explaining, and quantifying where feasible, the major differences in key fiscal aggregate outcomes based on budget classification and the classification in GFS reports.	Include a reconciliation table in the annual state budget execution report reconciling differences in key fiscal aggregate outcomes based on budget classification and the classification in GFS reports.
2.1. Improve budget comprehensiveness.				
Publish comprehensive fiscal aggregates encompassing all activities of central and local government budgetary units and extra-budgetary funds.	For the 2019 budget, amend annex 2 of the budget documentation to separately disclose expenses and financing transactions for policy purposes, and report aggregates for both the fiscal balance and overall balance (including financing for policy purposes) for the state budget. In the 2019 Budget, provide a comprehensive picture of off-budget activity, by presenting alongside the budget, information on (i) the revenues, expenses, budget balance and financing of each EBF; and (ii) information on	Include, an annex to the 2020 budget showing consolidated fiscal aggregates (revenue, expenditure, budget balance, financing, and overall budget balance) for the consolidated budget (covering the state budget, and EBFs).	Include tax revenues retained by EBFs and PCs as state budget revenue, and their associated transfers to these entities as state budget expenditure. Review the nature of off-budget accounts and own-source revenues of budgetary organizations, and identify those accounts that are controlled by their supervising ministries and which should be brought into the state budget.	Bring off-budget accounts of budgetary organizations into the state budget.

Recommendation	2018	2019	2020	2021
	the main fiscal aggregates for all off budget accounts of budgetary organizations by broad category or supervising ministry. Ensure externally-financed activities of budgetary organizations are accurately reflected in the State Budget.			
2.2. Adopt transparent principles for the planned implementation of a medium-term budget framework.				
a. Present medium-term forecasts of the key macroeconomic variables underpinning the budget, their underlying assumptions, and discussion of their main components and drivers.	Include, in Annex 1 of the 2019 Budget, forecasts for the main macroeconomic variables (real and nominal GDP growth, inflation rate, employment or unemployment, wage growth), outturns for the previous year, and updated estimates for the current year and disclose the main economic assumptions underpinning those forecasts (e.g., interest rates, exchange rates, global demand, relevant commodity prices). Include discussion in the budget, summarizing the forecasts and their main drivers and any data quality constraints that potentially impact forecasting accuracy.	In preparation for the budget, include in the budget circular the main economic parameters budget organizations must adopt in preparing their fiscal plans. Further expand the discussion of macroeconomic forecasts, by including an explanation on the main reasons for differences in the forecasts, compared to the previous budget.		
b. Present medium-term forecasts of the main fiscal aggregates and more detailed information on expenditure allocations.	Present medium-term projections for aggregate revenue, expenditure, budget balance, financing, and the overall budget balance (fiscal balance and financing for policy purposes) for	Include a comparison, at the aggregate level, of revenue, expenditure, and budget balance of the forecasts in the 2020 budget to those of the previous year, and provide a qualitative explanation of		Present medium-term expenditure forecasts by economic classification and administrative unit as well as summary tables for all extra-budgetary funds.

Recommendation	2018	2019	2020	2021
	the state budget, along with outturns for the previous year, and updated estimates for the current year. Present budget year expenditure allocations by administrative unit. Present alongside the budget, more detailed information on the revenues, expenses, budget balance and financing for the budget year of all extra-budgetary funds (including the STFs and FRD) on an individual basis.	the main reasons for why the forecasts have changed.		
c. Clarify and clearly state the government's fiscal objectives.		Review the fiscal objectives, with a view to clearly defining the basis for their assessment and coverage, and include a clear statement on these objectives as part of the budget documentation.		
d. Publish information on total commitments for multi-year public investment projects.	Publish details of the State Development Program once it is approved each year. Present in an annex to the 2019 Budget, summary information on publicly-funded investment projects, including total budget-year allocation.	Present in an annex to the 2020 Budget, more detailed information on major publicly-funded investment projects, disclosing the expected total lifetime costs, source of financing, and where applicable, budget funding allocated for the budget year and expected allocation over the medium-term budget forecast horizon, on a project basis.		

Recommendation	2018	2019	2020	2021
2.3 Strengthen the integrity of the budget.				
a. Provide a comparison of forecasts with those of independent forecasters.	Provide a comparison in the budget between official macroeconomic and fiscal forecasts and those of independent forecasters.			
b. Strengthen legislative scrutiny of the budget.			Amend the budget code to reduce the degree to which the government can increase the level of expenditure and impose a limit on the extent to which the government can utilize greater than expected budget revenues for additional expenditure without prior parliamentary approval.	Undertake a review of the role of the legislature in approving budget revenues and expenditures, with a view to increasing its level of scrutiny and approval of spending allocations.
3.1. Improve analysis and disclosure of fiscal risks.				
a. Establish an institutional framework for monitoring, analyzing and reporting on fiscal risks.	Prepare the necessary legislative amendments to require publication of an annual fiscal risk statement and assigning responsibilities to relevant agencies and institutes.	Develop methodology for preparing the fiscal risk statement, including clearly defining information requirements, and begin compiling information.		
b. Publish an annual fiscal risk statement.		Publish an annual fiscal risk statement including: (i) a qualitative discussion of the main sources of macroeconomic and public debt risks; (ii) the stock of outstanding guarantees by beneficiary or beneficiary group; and (ii) the aggregate financial position of non-financial PCs and their transactions with government.	Expand the statement to include: (i) sensitivity analysis of the fiscal forecasts to changes in core macroeconomic variables; (ii) sensitivity analysis of risks to the public debt portfolio; (iii) more detailed discussion of the financial performance of non-financial PCs.	Further expand the statement to include: (i) ten-year debt sustainability analysis; (ii) guarantees to the financial sector and overview of state-owned banks; and (iii) discussion of performance and risks related to the largest non-financial PCs on an individual basis and information on their quasi-fiscal activities.

Recommendation	2018	2019	2020	2021
3.2. Tighten criteria for drawing on budget contingency provisions.				
Introduce transparent criteria for drawing on reserves and regularly report on the main purposes for which they are used.	Develop clear guidelines for the management of drawdowns from the reserve funds.	Amend legislation to specify clear rules governing drawdowns from the reserve funds and establishing a limit on the size of provisions to be included in the budget. Report in quarterly and the annual state budget execution report, the main purposes for which the reserves are used by broad category.		
3.3. Enhance financial oversight of public corporations.				
Establish a central database of key financial information, risk indicators and state support for public corporations.	Compile a central database of key financial information and state support for all PCs, and information compiled by the debt department.	Establish a methodology for assessing fiscal risks related to PCs, building on the indicators for monitoring PC performance set out in decree 207 of 2015.	Require PCs to report and quantify their public service obligations and provision of goods and services at below-market prices.	

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