

## FEATURES OF BUDGET TRANSFERS IN THE FORMATION OF LOCAL BUDGET FUNDS

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**Abstract:** This article highlights the importance and specific characteristics of budget transfers, which are the main criterion for inter-budgetary relations linking economic relations between budgets, widely used in the formation and management of local budget funds, which are one of the links of the public finance system, their objective necessity, functional tasks, and general economic and financial factors aimed at further reducing financial and economic consequences.

**Keywords:** Local budget, inter-budgetary relations, budget transfer, subsidy, subvention, budget loan, donor territory.

### Introduction.

We know that as a result of the deepening of economic reforms being carried out in our country, the role of local government bodies in the socio-economic development of the regions is increasing, which leads to the expansion of their rights in the sphere of the local budget and the further strengthening of their financial base. The reason for this is that in the further development of economic reforms carried out in the regions, in the state regulation of national development based on the geographical location of all regions, the budget system and local budgets, which are its component, are of great importance. Today, the country's fiscal policy plays an important role in the further development of the state's economy. At the same time, special attention is gradually being paid to the formation and further strengthening of local budget funds in the regions in the proper economic development of all regions of the state and increasing budget efficiency, as well as ensuring the independence of local budgets.

Today, the execution of budget transfers, which are the main basis of inter-budgetary relations, plays a key role in the formation of state local budget revenues. The role of local taxes in the regions is not leading in ensuring the stability of local budget revenues, while deductions from national taxes and budget transfers in inter-budgetary relations remain crucial. This leads to an increase in the mood of dependency in the formation of local budget revenues in subsidized regions of some regions of the country. Therefore, today the issues of effective formation of local budget resources and expanding the financial capabilities of local budgets and further increasing their revenues remain one of the pressing issues of the day.

The state budget of economically developed countries is the main financial and economic plan of this state. This is one of the main sources of financing for socio-economic and other activities carried out by the state. At the same time, based on the tasks assigned to the state for the performance of its functions, budgets of various levels are formed at its disposal. Based on this, the expenditure obligation of the state budget is also distributed among the budgets of different levels, i.e., local budgets, which is the basis for the distribution of state budget revenues between each budget.

Today, one of the main problems in the sphere of public finance is also directly related to the system of redistribution of state budget revenues between budgets of different levels. Local budgets constitute an important component of the budget system of the Republic of Uzbekistan.

They create an appropriate financial base for each local body of state power to carry out its activities, based on its available capabilities.

### **Analysis of literature on the topic.**

The relationship between the state budget of the Republic of Uzbekistan and local budgets has also been studied by a number of scientists of our country. In particular, in the scientific work of Z.Kh.Srojiddinova, the budget system of the Republic of Uzbekistan and its components were studied. The relationship between the state budget and local budgets is considered in general terms [9].

In the research works of Sh.A. Tashmatov, Sh.R. Rajabbayev, and A.Kh. Islamkulov, theoretical issues related to financing and the state budget were studied [10]. In his research work, A.Kh. Islamkulov considered the issues of forecasting state budget revenues, while the relationship between state budget revenues and budgets of different levels was considered only partially [11].

### **Analysis and results.**

Budget revenues and expenditures generated by the government are redistributed to finance social spheres in different regions. In this case, the revision of state revenues may be considered contrary to the financial interests of economically developed or regions with high economic potential. Therefore, economic reforms in the state financial system, inter-budgetary budget transfers, and the resulting problem of local budget independence are being studied by a wide range of economists.

Old views on budget independence put forward the advantages of decentralized decision-making in government bodies. In this case, the advantages of local government bodies in the provision of public services, their need for public services compared to the central government, are recognized.

There may be cases when local expenditure obligations do not fall within the relevant competence of state authorities. When financing such expenditures, it is advisable to use inter-budgetary transfers. For example, targeted social transfers are allocated from a higher-level budget to a lower-level budget to cover the salaries and social tax expenses of educational and medical institutions. As a result, the standard amount of provision of such services will be ensured in all regions of the republic.

Under the influence of the above factors, mutual equalization of the budget system arises, and the main instruments used in such equalization are presented in Chapter 20 of the current Budget Code of the Republic of Uzbekistan, entitled "Inter-budgetary Relations," which describes the movement of monetary relations between all types of budgets and the procedure for their formalization.

One of the main instruments of inter-budgetary relations is budget transfers. The general concept of budget transfers is defined in Article 134 of the Budget Code of the Republic of Uzbekistan as follows: Inter-budgetary transfers are carried out in the form of subsidies, transferred revenues, subsidies, budget loans, funds for mutual settlements, regulatory budget transfers, and targeted social transfers. [2]

In accordance with the Law on the State Budget, a reduction in the amounts of regulating inter-budgetary transfers allocated from the republican budget of the Republic of Uzbekistan to the budget of the Republic of Karakalpakstan, local budgets of regions and the city of Tashkent, as well as from the republican budget of the Republic of Karakalpakstan, regional budgets of

regions and the city budget of the city of Tashkent to the budgets of districts and cities is not allowed, regardless of the execution of revenue forecasts for lower-level budgets.

At the initiative of a higher financial authority, the obligations of a higher-level budget to a lower-level budget for one form of inter-budgetary transfer can be offset by reducing the obligations of a lower-level budget to a higher-level budget for another form of inter-budgetary transfer [2].

In world practice, the financial capabilities of local budgets are expressed through their absolute stability. Expenses financed by them are understood as the possibility of full financing of assigned revenues, mainly through local taxes and fees, as well as regulatory revenues in the form of regulatory deductions in the prescribed manner.

If there is a shortage of assigned and regulating revenues, funds are allocated from the higher budget under the financial equalization policy through forms of financial assistance. Such a situation is recognized as a state of instability of local budgets.

Table 1

**Budget transfers in the structure of local budget revenues****Information on the share. (in billion soums)**

| No | Fiscal years | Total revenues of the local budget | Local budget taxes and fees | Inter-budgetary transfers | Transfer share, (in percent) |
|----|--------------|------------------------------------|-----------------------------|---------------------------|------------------------------|
| 1  | 2019 yil     | 52 049,7                           | 35 134,2                    | 16 915,5                  | 32,5%                        |
| 2  | 2020 yil     | 47 190,8                           | 27 702,9                    | 19 487,9                  | 41,3%                        |
| 3  | 2021 yil     | 65 534,3                           | 35 172,9                    | 30 361,4                  | 46,3%                        |
| 4  | 2022 yil     | 88 787,5                           | 47 390,3                    | 41 397,2                  | 46,6%                        |
| 5  | 2023 yil     | 101 740,6                          | 55 728,9                    | 46 011,7                  | 45,2%                        |
| 6  | 2024 yil     | 74 896,7                           | 47 240,1                    | 27 656,6                  | 36,9%                        |

Table data; Taken from the website of the Ministry of Economy and Finance of the Republic of Uzbekistan and analyzed by the author.

As can be seen from the data in the table above, if in 2019 the share of inter-budgetary transfers in local budget revenues amounted to 32.5 percent in the republic, then in 2020 this indicator increased by 8.8 percent and amounted to 41.3 percent. One of the main reasons for this is the declaration of quarantine in the country as a result of the spread of the COVID-2019 disease in the world, and the temporary suspension of taxpayers' activities in the territory of the republic, which sharply reduced the receipt of taxes and fees to local budget revenues. As a result, budget transfers from higher-level budgets to lower-level budgets have sharply increased to cover local budget expenditures in a timely manner.

The share of inter-budgetary transfers in local budget revenues in 2021 and 2022 amounted to 46.6 percent, an increase of 5.3 percent compared to 2020. The main reason for this is that during the pandemic in 2020, the state took the necessary measures for the recovery of many taxpayers, or as a result of the application of tax benefits to manufacturing enterprises, an increase in inter-budgetary transfers in the share of local budget revenues was observed. By 2023, this indicator decreased by 1.4% compared to 2022, or constituted 45.2% of local budget revenues in 2023. In 2024, the forecast for the fulfillment of these indicators is expected to decrease by 8.3% compared to 2023, or the share of inter-budgetary transfers in local budget revenues is expected to be 36.9%. The reason for this is the sharp application of tax benefits by

the President and the increase in the number of taxpayers in all regions of the republic as a result of the attraction of foreign investors from various sectors to the country, which contributes to the growth of the country's economic development.

Another key instrument of the state budget for inter-budgetary transfers is targeted social transfers. This transfer is defined in Article 1381 of the Budget Code of the Republic of Uzbekistan as follows. "Targeted social transfers are allocated from a higher-level budget to a lower-level budget to cover the expenses of educational and medical institutions for wages and social tax." [2]

The amounts of targeted social transfers from the republican budget to the budget of the Republic of Karakalpakstan, local budgets of regions and the city of Tashkent - are determined when adopting the draft law on the State Budget, as well as when making decisions on local budgets of regions, districts and cities. It should also be noted that, according to regulatory legal acts, unused targeted social transfers must be returned to the relevant higher-level budget at the end of the current fiscal year.

In today's practice, for several years, funds have been allocated from targeted social transfers in the state budget system to finance wages, unified social payments of social organizations, and social benefits. In 2021-2023, 11 out of 14 regions of the republic used targeted social transfers. We can see the regions that used targeted social transfers the most in these years in the table below. The table below presents data on budget transfers allocated from the republican budget of the Republic of Uzbekistan to the local budgets of the regions.

Table 2

**Budget allocated from the republican budget of the Republic of Uzbekistan to the republican budget of the Republic of Karakalpakstan and regional budgets of regions Information on the amount of transfers. (in billion soums)**

| №  | Territory names  | 2021 year           |             | 2022 year           |             | 2023 year           |             | 2024 year           |             |
|----|------------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|
|    |                  | sum                 | %           | sum                 | %           | sum                 | %           | sum                 | %           |
|    | <b>JAMI</b>      | <b>10<br/>443,0</b> | <b>100%</b> | <b>14<br/>115,6</b> | <b>100%</b> | <b>24<br/>280,9</b> | <b>100%</b> | <b>16<br/>836,6</b> | <b>100%</b> |
| 1  | Qoraqalpog'iston | 1 301,4             | 12,5%       | 1 518,0             | 10,8%       | 2 672,4             | 11,0%       | 2 078,0             | 12,3%       |
| 2  | Andijon          | 876,7               | 8,4%        | 1 682,3             | 11,9%       | 2 805,5             | 11,6%       | 1 913,8             | 11,4%       |
| 3  | Buxoro           | 440,0               | 4,2%        | 442,3               | 3,1%        | 645,9               | 2,7%        | 361,1               | 2,1%        |
| 4  | Jizzax           | 490,0               | 4,7%        | 824,6               | 5,8%        | 1 284,4             | 5,3%        | 888,6               | 5,3%        |
| 5  | Qashqadaryo      | 1 577,3             | 15,1%       | 2 051,3             | 14,5%       | 3 819,0             | 15,7%       | 927,1               | 5,5%        |
| 6  | Navoiy           | 0,0                 | 0,0%        | 0,0                 | 0,0%        | 0,0                 | 0,0%        | 182,5               | 1,1%        |
| 7  | Namangan         | 1 284,0             | 12,3%       | 1 704,8             | 12,1%       | 2 899,9             | 11,9%       | 1 984,0             | 11,8%       |
| 8  | Samarqand        | 1 102,7             | 10,6%       | 1 008,0             | 7,1%        | 2 196,3             | 9,0%        | 1 588,5             | 9,4%        |
| 9  | Surxondaryo      | 1 293,6             | 12,4%       | 1 987,0             | 14,1%       | 3 248,9             | 13,4%       | 1 832,8             | 10,9%       |
| 10 | Sirdaryo         | 534,3               | 5,1%        | 673,2               | 4,8%        | 1 086,2             | 4,5%        | 901,8               | 5,4%        |
| 11 | Toshkent.v       | 0,0                 | 0,0%        | 0,0                 | 0,0%        | 0,0                 | 0,0%        | 517,3               | 3,1%        |
| 12 | Farg'ona         | 910,1               | 8,7%        | 1 377,5             | 9,8%        | 2 181,0             | 9,0%        | 1 943,6             | 11,5%       |
| 13 | Xorazm           | 632,9               | 6,1%        | 846,6               | 6,0%        | 1 441,4             | 5,9%        | 1 203,8             | 7,1%        |
| 14 | Toshkent.sh      | 0,0                 | 0,0%        | 0,0                 | 0,0%        | 0,0                 | 0,0%        | 513,9               | 3,1%        |

Data presented in the table; Taken from the Resolutions of the President of the Republic of Uzbekistan "On the Forecast of the Main Macroeconomic Indicators and Parameters of the State Budget of the Republic of Uzbekistan." [37]

These data show that from 2021 to 2023, the number of regions receiving budget transfers was 11. At the same time, in 2021-2023, although the share of inter-budgetary transfers in Bukhara, Syrdarya, and Khorezm regions decreased, we can see that the amount of received transfers increased. Also, the regions that received the lowest budget transfers were Bukhara, Jizzakh, Syrdarya, and Khorezm regions. In 2024, it is planned to provide budget transfers to all regions of the republic in the amount of 16,836.6 billion soums. This indicator decreased by 31% compared to 2023. From the data in the table, it can be concluded that when conducting the state's fiscal policy, it is necessary to develop appropriate measures for the implementation of budget policy that reduces the amount of budget transfers received by the regions.

### **Conclusions and suggestions.**

Currently, in the practice of regulating inter-budgetary relations, some in the formation of local budget revenues, instead of increasing local revenues, there is a dependency on the allocation of budget transfers from the higher budget. At the same time, the increase in the amount of budget transfers in the amount of income generation leads to a lack of a high sense of responsibility of local government bodies in the regions. This situation does not correspond to the policy of further development and radical reform of the country's economy. In addition, local government bodies do not pay attention to increasing the revenue base and economic capabilities of their territories through financing from donor regions and the republican budget. As a result, they strive to receive more funds from the state budget. This, in turn, leads to gross violations of the requirements of current regulatory legal acts and rules of procedure, instead of the targeted use of budget funds.

To reduce the allocation of budget transfers from the state budget to the local budgets of regions, districts, and cities, it is necessary to develop measures for the development of local production enterprises, small and medium-sized businesses in the regions. Also, in order to ensure the stability of local budget revenues and increase them, it is necessary to increase the amount of deductions from national taxes to local budget revenues in proportion to local budget expenditures. It is necessary to review these tax deductions and regulate the distribution systems in percentage terms of the total number of taxpayers in the republic, depending on the number of taxpayers in the regions.

The presence of the share of inter-budgetary transfers in the structure of local budget revenues and their relatively high share in the structure of revenues creates problems in financing related to their financial dependence on higher budgets and ensuring specific budget expenditures.

Therefore, to further deepen reforms to reduce the share of inter-budgetary transfers in the structure of local budget revenues, it would be advisable to create the "Socio-Economic Development of Regions" fund under local government bodies in order to provide funds for the full implementation of important priority areas of annual economic programs determined by the state.

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