CENTRAL ASIAN JOURNAL OF INNOVATIONS ON TOURISM MANAGEMENT AND FINANCE

https://cajitmf.casjournal.org/index.php/CAJITMF

Volume: 07 Issue: 01 | January 2026 ISSN: 2660-454X

Article

Budget Rules As A Means of Ensuring Macroeconomic Stability: Theory, Practice and Prospects for Uzbekistan

E.M. Son,[1]

1. Head of Unit at the Institute for fiscal scientific research under the Ministry of Economy and Finance of the Republic of Uzbekistan, Independent researcher (PhD) at Tashkent State University of Economics

* Correspondence: evgeniya.son.m@gmail.com

Abstract: At a time when the Uzbek economy is still dominated by natural resource revenues, this study explores how well constructed budget rules can provide an anchor for macroeconomic stability. While widely used internationally, Uzbekistan's existing fiscal rule suffers from several shortcomings, include a lack of medium-term planning and independent monitoring and evaluation. This breeds unpredictability and reduces the value of the strategies currently employed. After identifying international best practices in relative terms to the IMF standards and the experiences of the most prominent Fiscal Councils of the UK, Ireland and France, the article compares these normative practices with the legal and institutional environment in the Republic Uzbekistan. The results include variations in the Budget Code, informal rules on deficits, expenditures and revenues, and insufficient expert review process in the medium-term Fiscal Strategy. Independent Fiscal Councils help improve forecast accuracy, transparency, and discipline features Uzbekistan lacks, but for which there is evidence too. The study argues that in view of this evaluation, the Budget Code should be better aligned with medium-term needs, modern budget rule mechanisms (including temporary deviations) be adopted; and an independent Fiscal Council be instituted to promote credible oversight. Improving fiscal resilience with these measure would introduce risk reduction and allow long-term sustainable economic development to take place in Uzbekistan.

Keywords: fiscal rules, medium-term budgeting, financial discipline, fiscal council, public debt, economic stability.

Citation: Son, E. M. Budget Rules As A Means Of Ensuring Macroeconomic Stability: Theory, Practice And Prospects For Uzbekistan. Central Asian Journal of Innovations on Tourism Management and Finance 2026, 7(1), 226-234.

Received: 03th Sep 2025
Revised: 11th Oct 2025
Accepted: 19th Nov 2025
Published: 12th Dec 2025

1. Introduction

Medium-term budget planning (usually for 3-5 years) is a process that goes beyond one fiscal year. Fiscal rules give structure and meaning to this process. The importance of budget rules in medium-term planning lies in the fact that they transform the budget from a formal procedure into a real tool of strategic management.

Fiscal rules ensure stability by controlling debt, increase forecasting capabilities for economic agents, increase flexibility by creating reserves, and inevitably establish discipline. In today's unstable global economy, the existence of reliable and transparent budgetary rules is one of the most important features of mature and responsible macroeconomic policy aimed at ensuring long-term and sustainable growth.

This article introduces the theory of fiscal rules, compares the structure and functions of the most popular independent Fiscal Councils in the world, and provides conclusions and suggestions for Uzbekistan.

Avakyan A.R. in his article analyzes the essence and effectiveness of fiscal rules as a means of ensuring macroeconomic stability. The author notes that numerical constraints on budget indicators, especially in countries with a high dependence on natural resources, enable balancing expenses and mitigating the impact of external shocks. Fiscal rules serve to strengthen financial discipline. However, temporarily abandoning strict rules, for example during a pandemic, increases risks to macroeconomic stability [1].

2. Materials and Methods

The analytical-contemporary research framework that assesses the practice of reflection budget rules and its implications for the fiscal system of Uzbekistan. The analytical work is initiated with a thorough examination of legal paper work, budget policies and macroeconomic reports to analyze how existing rules are determined and implemented in Uzbekistan. These national-level findings are then compared against the structural and functional landscape of leading Fiscal Councils in the UK, Ireland, and France, based on their official frameworks in terms of transparency, forecasting abilities and institutional independence. The international standards by IMF and OECD are engaged in order to evaluate whether the current mechanisms of Uzbekistan fulfill the global minimum requirements in terms of fiscal discipline and medium-term planning. The research explores contradictions in the Budget Code by tracking how fiscal strategies are actually planned, ratified, and overseen. Comparing practices with the insights of evaluation methods used in other contexts, the research reveals gaps, risks and inconsistencies, which may undermine stability. Third, based on these insights the study concludes by offering a set of actionable policy recommendations that are relevant for the specific legal framework and the Macro Economic structure of Uzbekistan. This approach permits the article to link theory, international experience, and national realities in a coherent and empirical fashion.

3. Results

Uzbekistan has a large agricultural sector, industry, and a growing service sector. However, despite this, a large part of the country's income comes from the sale of natural resources, such as gold, gas, and oil products. This is precisely why we need to thoroughly examine the operational principles of budgetary rules and implement them in Uzbekistan, taking into account the gradual diversification of our economy.

Khazratkulova L.N. believes that the medium-term budget forecast is essentially the conceptual basis of medium-term budget planning. The models formed on this basis differ in different countries, but two main models can be distinguished [2]:

1. **Medium-term budget plan and annual budget**. In this model, the budget is drawn up for one year, but medium-term limits (frames) of revenues and expenditures are applied (for 3-4 years in various sections);
2. **Multi-year budget.** The budget is drawn up on a flexible basis for the medium term (3-5 years). This means that annually a multi-year (3-5) budget is adopted by adding one year each year to the previously adopted multi-year budget [3].

Uzbekistan is adopting the first model, similar to many developed countries such as Germany, France, the United Kingdom, and others. In this model, the budget for the next fiscal year is approved as a full-fledged budget law, and forecasts for 3-4 years in advance usually act as a guide (often without legal force).

Lazaryan S.S. et al. analyzed the experience of international application of budget rules and focused on the formation of modern concepts in fiscal policy. According to researchers, there are a number of advantages of budget rules: increasing budget discipline, transparency and clarity, reducing political risks, strengthening the confidence of markets and international organizations, and flexibility – modern budget rules include flexible mechanisms for responding to economic shocks [4].

As a result of the study, researchers identified the difficulties and risks of budget rules, which are: rigidity - very strict restrictions can limit the ability to respond quickly in crisis situations; problems of execution and control - it is difficult to ensure compliance with rules without independent institutions; the risk of bypassing the rules - governments try to deviate from the rules through accounting methods or extra-budgetary commitments; the need for adaptation - the rules must be sufficiently flexible to take into account economic cycles and instability; diversity of economic conditions - difficulty in implementing common rules that apply to all countries and situations.

We agree with authors of this article. As we saw in the 2008 global financial crisis, strict restrictions may not always work correctly. After the crisis, many countries began to create additional functions to budget rules that help maintain balance in unexpected situations. One of these functions is temporary deviations, which temporarily change the limits of budget indicators in order to maintain balance.

Ethan Ilzetzki and Heidi Christina Thysen studied the relationship between fiscal rules and market discipline in limiting public debt in their research. In this case, the researchers used a sovereign borrowing model with asymmetric data on the propensity of governments to borrow excessively and default. Fiscal rules help limit governments that are prone to excessive borrowing. However, for rational governments, these rules can have a negative impact - they can force unreasonable austerity and reduce the opportunity to demonstrate reliability. According to the authors, optimal rules should ensure balance: while limiting excessive borrowing, they should maintain flexibility for conducting responsible fiscal policy [5], [6].

In our opinion, in order for budget rules to be truly effective at the highest level, they must be flexible.

According to the International Monetary Fund (IMF), there are four main types of budget rules: balanced budget rules, debt rules, expenditure rules, and revenue rules [7], [8].

1) **Balanced Budget Rules** (BBR - balanced budget rules). It usually requires that expenses not exceed income over a certain period of time. According to the provisions of the primary balance sheet of the state budget, debt servicing costs are not taken into account. Another option for calculating costs is the "per-cycle" balance, which is a balanced budget or cyclically adjusted balance over the average business cycle [9]. According to the "Golden Rule" in economics, investment expenditures are excluded from the balanced budget calculation. However, the disadvantage of the "Golden Rule" is the difficulty of determining which expenditures are considered investments and which are current, the difficulty of following the rule during an economic downturn, and critics consider it a very strict measure.
2) **Debt rules (DR - debt rules)** define a specific limit or purpose of public debt relative to gross domestic product. The essence (criticism) of this rule is that if a country's indicators are significantly lower than the target indicator, it may indicate the inadequacy of budget policy and its inherent cyclicity.
3) **Expenditure rules (ER)** set limits on total expenditure by applying different constraints across the government as a whole or across different sectors. Expenses There is also an option to subtract interest expenses from deductions. However, tax expenses - expenses that are sometimes incorrectly described as negative income - can be included in the expense rule. Restrictions can be in real or nominal form, as a fixed percentage of GDP, or include flexibility to maintain a certain growth rate over time.
4) **Revenue rules (RR - revenue rules)** provide for limitations on the upper or lower limit of budget revenues, and sometimes both. The purpose of such restrictions is to increase revenue collection or prevent excessive tax burden. Similar to the expenditure rule, limits can be real or nominal, as a fixed percentage of GDP, or include flexibility to maintain a certain growth rate over time.

The global financial crisis of the late 2000s and the collapse of commodity prices in 2014-2015 prompted countries to revise their budget rules. A number of reforms have been implemented to improve the flexibility and operational compliance of budget rules, as well as to strengthen the monitoring and enforcement of rules outside the government. Independent fiscal councils initially emerged as national initiatives (USA, Netherlands), but became widespread after the crisis of 2008-2010. During this period, it has become clear that without independent oversight, governments tend to understate risks and increase the budget deficit [10], [11], [12].

Independent Fiscal Councils (hereinafter MCCs) play an important role in ensuring the stability of public finances. Their main task is to monitor budget policy, prepare independent forecasts, and increase the transparency of the budget process, which reduces the risk of excessive optimistic assessments and politically motivated decisions. The IMF puts forward the idea of establishing the IMF as an institution capable of strengthening fiscal discipline, preventing excessive debt accumulation, and increasing investor and public confidence in the state's economic policy [13].

In order to clearly understand the structure of the fiscal councils, we have prepared a comparative table containing the most authoritative councils (Appendix 1). The IMF and the OECD cite these three Fiscal Councils as examples in their recommendations. The table shows that the Councils differ from each other in all respects. But at the same time, each Fiscal Council fully carries out the tasks assigned to it, has gained the trust of the population and a reputation that will not decrease, but will grow over the years.

As can be seen from the table, the reasons for the initial establishment of these Councils were different. While the United Kingdom and Ireland aimed to restore the trust lost after the 2008 global financial crisis, France was forced to form a Council on the firm recommendations of the IMF. However, regardless of the reasons for the creation of the Fiscal Councils, they fully justified the expected results. In addition, the independent French Fiscal Council demonstrates successful adaptation and integration of international standards on budget accountability into national legislation [14], [15], [16].

Some of the main tasks of the Fiscal Councils are presented in the following comparative table (Appendix 2). The table compares the norms of the IMF and OECD, the experience of the world's most popular IFCs, and the current situation in Uzbekistan. When studying the situation in Uzbekistan, it was revealed that there are unexpected contradictions in the Budget Code (hereinafter CC).

According to Article 90 of the Tax Code, the Ministry of Economy and Finance is responsible for developing a medium-term Fiscal Strategy. According to Articles 3 and 90 of the Tax Code, the Fiscal Strategy is structured **for the medium term.** According to Article ^{901} of the BC..."updated Fiscal Strategy **for the next year...**" Submitted for discussion and approval to the Cabinet of Ministers. After approval, it is submitted to the Oliy Majlis for information and published by the Ministry of Economy and Finance on its official website. Here, the phrase "next year" can be considered as "next one financial year."

The contradiction lies in the fact that the Ministry of Economy and Finance currently posts a medium-term Fiscal Strategy on its official website. However, according to the CC, instead of a medium-term strategy, the Ministry should announce a one-year strategy; A one-year strategy is being introduced to the Cabinet of Ministers instead of a medium-term fiscal strategy. In that case, the following conclusion can be drawn: forecasts for an additional two years from next year are considered an internal document of the Ministry of Economy and Finance and remain without government control [17], [18].

Before the approval of the law on the state budget for the next year, an expert review is conducted by the Accounts Chamber. However, no document specifies that the Fiscal Strategy should undergo expert review or any other type of analysis [19].

In Uzbekistan, the concept of "budget rules" is not included in regulatory legal acts. However, the IMF's debt rule restrictions are included in Article 35 of the Law of the Republic of Uzbekistan "On Public Debt," registered on April 29, 2023, No. 836. Moreover, according to paragraph three of this article, when the amount of public debt reaches 50 percent of GDP, the Cabinet of Ministers, in accordance with the established procedure, submits to the chambers of the Oliy Majlis of the Republic of Uzbekistan measures ensuring that the public debt does not exceed 60 percent. The remaining types of budget rules, namely the budget deficit and specific restrictions on expenditures (or revenues), have not been adopted by regulatory legal acts (Table 1).

Table 1. Budget deficit, expenditure or revenue constraints

Restriction type	Content	Explanation	Example
Budget deficit restrictions	1. According to IMF recommendations, setting the budget deficit at 3% of GDP increases the effectiveness of expenditures.	1. Starting in 2024, Uzbekistan will officially comply with the IMF's recommendations on deficit mitigation. (Deficit indicators: 2022. - 3.5%, 2023 - 4.5%, 2024-2025. - 3%)	1. In Germany, France, Italy, and Spain, the budget deficit limit is set at 3% of GDP.
	2. In the planned fiscal year, a maximum level of limits **on new loans** will be established.	2. If the growth of public debt is faster than the growth of the economy (GDP), then the debt will increase as a percentage of GDP. To stabilize this indicator, the primary budget balance must be positive enough to cover interest expenses.	2. For example, in the European Union, under the Stability and Growth Pact, new borrowings do not exceed 3% of GDP.
Restrictions on expenses or income	1. Fixed limits of expenses established by law. Usually used in conjunction with budget deficit or public debt regulations.	1. These limits help us control the growth of government spending. Additional income, which can be accumulated during the period of economic growth, can be used during a crisis.	1. For example, in the Netherlands, the "cost rule" states that government spending growth should not exceed inflation and economic growth forecasts.
	2. Determination of the minimum level of income. It is usually defined in relation to GDP.	2. This will help ensure financial stability and prevent excessive reduction of taxes or benefits that violate fiscal discipline. It is especially important for resource countries. Because the incomes of these countries depend on variable resources. Income rules, on the other hand, help to smooth economic cycles.	2. Fixed income thresholds are less common, but a high level of tax revenues persists in many countries (40-45% of GDP in developed countries).

In accordance with the IMF recommendations and foreign experience, it is also necessary to establish independent Fiscal Boards in Uzbekistan. For Uzbekistan, the possible structure of this council with its main characteristics and comments is presented in the table below (Table 2).

Table 2. Estimated structure of the independent Fiscal Council in Uzbekistan

DESCRIPTION OF THE COUNCIL	EXPLANATION
1. LEGAL BASIS	
1. A separate section should be included in the Budget Code or a separate law should be adopted, defining the name, status, and financing procedure of the Council. 2. Guaranteeing the Council's independence from the executive branch (leadership selection, financing, and legal protection).	It is necessary to ensure the independence of the Council.
2. COMPOSITION AND MANAGEMENT	
1) The Council consists of 5 members, one of whom is the Chairman of the Council. Members must have different positions, i.e., be specialists in different fields.	Conducting business on the basis of constant activity

2) Members are appointed through open and fair competition (parliament, if necessary, with the participation of the president). The competition must be held according to a specific procedure. Estimated job requirements: ✓ Profession/Education: academic and professor (academic and applied economists), economist, finance, public finance, macroeconomics, public administration; ✓ Work experience: at least 10-15 years by profession/education; ✓ Skills: budget analysis, making macroeconomic and other forecasts, risk assessment, working with big data, legal and economic analysis, communication with parliament and the public, knowledge of Uzbek, English and Russian.	Not the general requirements for civil servants, but each candidate, based on their position, should have specific and unique skills and qualifications.
✓ Termination period: 5 years, depending on the result, can be appointed for another term by participating in the re-competition. If we take into account that the medium-term forecast is drawn up for 3 years, then within 5 years it will be possible to track the plan from forecast to implementation. Taking into account how accurate the forecast is as a result of execution, the term of office of members can be extended by participating in a repeat selection. ✓ Auxiliary Secretariat 3) Protection from political influence. **3. MAIN TASKS** **4. INTERACTION WITH THE OLIY MAJLIS** **5. SUFFICIENT DATA ACCESS** **6. PUBLIC OPENNESS AND COMMUNICATION** **7. EVALUATION OF THE EFFECTIVENESS OF ACTIVITIES** **8. HARMONY WITH THE COUNTRY'S REFORMS.**	It is taken into account that the majority of the elderly population knows only Russian.

Based on the information specified in Table 3, in paragraph [901] of the Budget Code, instead of the part..."updated Fiscal Strategy for the next year," based on Article 3 and 90 of the Budget Code,..."updated Fiscal Strategy for the medium term ..." Replacing with phrase or "for next yearupdated for strategy approvaland from next year for additional two years of informationto be addedphrase;

According to IMF recommendations, forecasts should be analyzed (Table 3). The Budget Code of the Republic of Uzbekistan does not provide for the analysis or examination of the medium-term fiscal strategy. Analysis or expert review of the medium-term Fiscal Strategy in Uzbekistan, taking into account the recommendations of the IMF:

Table 3. Comparative table of the functions of the fiscal councils international norms, foreign experience and the situation in Uzbekistan

Function	International Standard	Britain	Ireland	France	Uzbekistan
Preparation/Approval of Macroeconomic Forecasts	Councils prepare or evaluate forecasts to prevent political bias.	Forecasts prepared twice a year for next 5 years.	Ministry prepares forecast; Council approves/rejects.	Evaluates gov forecasts for consistency.	Ministry of Economy & Finance prepares medium-term Fiscal Strategy; updated yearly and approved by Cabinet.
Analysis of Budget & Medium-Term Plans	Examination of budget projects, structural balances.	Evaluates reliability of 5-year forecasts incl. demographics, debt.	Analyzes budget & strategy; submits recommendations.	Reports on annual budget & programs.	Accounts Chamber reviews draft State Budget; Budget Law defines consolidated parameters.
Monitoring Budget Rules	Monitor deficit, debt, expenditure	Assesses compliance with	Checks national & EU compliance; publishes results.	Monitors compliance	Ministry monitors public debt; only debt rules exist;

	rules; apply corrections.	debt & deficit rules annually.		with Golden Rule.	no GDP-based limits.
Fiscal Risk Assessment	Assess risks (SOEs, PPPs, guarantees, FX, prices).	Publishes annual Fiscal Risks Report.	Analyzes main risks incl. commodity prices & guarantees.	Assesses debt & macro risks.	Fiscal Strategy includes risk scenarios; 2024–2026 Risk Review prepared.
Debt Sustainability Analysis	Debt forecasts 5–30 years & stress tests.	Forecasts 5–50 years; performs stress tests.	Includes crisis scenarios.	Assesses debt stability in budget conclusions.	Ministry monitors forecasts, limits, servicing; Accounts Chamber checks efficiency.
Long-Term Forecasts	Forecast demographics, pensions, climate 20–30 years.	Publishes Long-Term Fiscal Projections every 2 yrs (50 yrs).	Prepares long-term forecasts (10–30 yrs).	Medium-term analysis only.	Ministry prepares medium-term Fiscal Strategy; Uzbekistan-2030 defines long-term goals.
Evaluation of Corrective Measures	Evaluate corrective actions after rule violations.	Publishes analysis of consolidation plans.	Reviews corrective actions for EU violations.	Evaluates within EU procedures.	No corrective system; if debt 50% GDP → Cabinet submits measures; 2025 Budget Law defines amendment rules.

4. Conclusion

The findings of this paper demonstrate that Uzbekistan is progressing towards a contemporary fiscal framework, however significant shortcomings remain that undermine the strength and credibility of the system. The results show that important ingredients present in successful international practice transparent and consistent budget rules, independent monitoring and accountability, and inherent flexibility to adjust in the face of shocks are mostly absent in current national practice. Weak fiscal discipline and a half-hearted approach to long-run planning are implicit in the contradictions of the Budget Code, the lack of medium-term instruments, and the absence of external review of medium-term strategies. What are the implications of these issues: without stronger institutions and clearer rules, Uzbekistan might see a growing amount of uncertainty, decrease in the investors' confidence and more serious challenges in dealing with economic shocks in future. Underpinning this with a clear legal framework, and establishing an independent Fiscal Council would enhance transparency and forecasting quality, as well as credibility915. Moving forward, additional analysis needs to identify how such a council could be tailored to Uzbekistan, investigate political and administrative constraints to introducing new fiscal rules, and analyse how a more diverse economic base could back a more stable and responsible budgeting framework.

REFERENCES

[1] Avakyan A. R., "The role of budget rules and their effectiveness in achieving macroeconomic stability," *Questions of Theoretical Economics*, no. 3, pp. 73–92, 2024. DOI: 10.52342/2587-7666VTE_2024_3_73_92.

[2] Khazratkulova L., "Peculiarities of mid-term planning of public finance in Uzbekistan," *Society and Innovations*, Special Issue 1, no. 01, pp. 149–157, 2020.

[3] Lazaryan S. S., Nikonov I. V., Votinov A. I., and Gubkova E. A., "International experience in the application of budget rules: formation of modern concepts," *Finance: Theory and Practice*, vol. 23, no. 2, pp. 212–226, 2019. Available: https://www.finjournal-nifi.ru/images/FILES/Journal/Archive/2019/2/statii/fm_2019_2_05.pdf

[4] Ilzetzki E. and Thysen H. C., “Fiscal rules and market discipline,” CFM Discussion Paper No. 2024-09, London School of Economics, 2023. Available: https://www.lse.ac.uk/CFM/assets/pdf/CFM-Discussion-Papers-2024/CFMDP2024-09-Paper.pdf

[5] Davoodi H. R. et al., *Fiscal Rules at a Glance: An Update 1985–2021*, Fiscal Affairs Department, IMF, Tashkent, 2021. Available: https://www.imf.org/external/datamapper/fiscalrules/FAD%20Technical%20Manual%20-%20Fiscal%20Rules%20at%20a%20Glance%201985-2021.pdf

[6] *Tied to the Mast: Fiscal Rules and Their Uses*, Peterson-Pew Commission on Budget Reform, Washington, DC, 2011.

[7] Peterson-Pew Commission on Budget Reform, *Binded to the Mast: Fiscal Rules and Their Uses*. Washington, DC. Available: https://www.pgpf.org/sites/default/files/101212_tied_to_the_mast.pdf

[8] Davoodi H.-R., Elger P., Fotiou A., “Fiscal rules and fiscal councils: Recent trends and performance during the COVID-19 pandemic,” *IMF Working Paper*, 2022.

[9] *Law of the Republic of Uzbekistan on the Budget Code*, No. 360, Dec. 26, 2013.

[10] *Law of the Republic of Uzbekistan on State Debt*, No. 836, Apr. 29, 2023.

[11] Cabinet of Ministers of Uzbekistan, *Strategy for Reforming the Public Finance Management System for 2025–2030*, Tashkent, 2021.

[12] Republic of Uzbekistan, *Fiscal Strategy of the Republic of Uzbekistan for 2023–2025*, Tashkent, 2020.

[13] Ministry of Economy and Finance of Uzbekistan, *Review of Macro-Fiscal Risks for 2024–2026*, Tashkent, 2024.

[14] Ministry of Economy and Finance, *Fiscal Strategy for 2023–2025*, Tashkent, 2023.

[15] Ministry of Economy and Finance, *Fiscal Strategy for 2025–2027*, Tashkent, 2024.

[16] Ministry of Economy and Finance, *Fiscal Strategy for 2026–2028*, Tashkent, 2025.

[17] Son E. M., Mirzaeva D. I., and Akbarova Kh. S., *The Importance of Budget Rules in Ensuring Macroeconomic Stability: Uzbekistan and Foreign Experience*, Institute of Budget and Tax Research, Tashkent, 2025.

[18] OECD, *Review of the Irish Fiscal Advisory Council: Independent Fiscal Institutions Review*, Public Governance Committee, 2021. Available: https://www.fiscalcouncil.ie/wp-content/uploads/2021/02/oecd-review-of-the-irish-fiscal-advisory-council.pdf

[19] Office for Budget Responsibility, “Who we are,” Office for Budget Responsibility. [Online]. Available: https://obr.uk/about-the-obr/who-we-are/. Accessed: Dec. 10, 2025.