



International Congress on Economics, Management and Business Studies

Hosted Online from New York, USA

Date: 23rd September, 2026

Website: <https://econferencia.com>

IMPROVING STATE BUDGET EXPENDITURE PLANNING IN UZBEKISTAN: PLAN–OUTTURN DEVIATIONS AND THE CASE FOR A MEDIUM-TERM EXPENDITURE CEILING

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Abstract

The article examines how credible state budget expenditure planning is in the Republic of Uzbekistan by comparing the approved and executed parameters of the consolidated budget in 2022–2025. Using official data of the Ministry of Economy and Finance, the annual budget laws and a comparative institutional analysis, the study shows that actual consolidated expenditure exceeded the approved level in every year, by 1.4 to 14.9 per cent, with a mean absolute deviation of 9.9 per cent. Over the four years unplanned spending (145.7 trillion UZS) was larger than unplanned revenue (124.6 trillion UZS), so revenue windfalls were largely absorbed by in-year spending rather than saved.

Keywords: State budget, expenditure planning, budget credibility, expenditure ceiling, medium-term budget framework, spending review, Uzbekistan.

Introduction

Over the past decade the state budget of Uzbekistan has become the main financial instrument of structural and social reforms. Its role has grown together with its size, and the rules of the budget process have been gradually rebuilt. The Budget Code sets out the stages of budget preparation, approval and execution and requires the annual budget law to be accompanied by budget targets for the



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following two years [1]. Each year the State Budget Law fixes the revenue forecast, the expenditure limits of the consolidated budget and the maximum deficit, which in recent years has been set at 3–4 per cent of gross domestic product (GDP) [2]. The Strategy for improving the public financial management system in 2025–2030 places the quality and reliability of budget planning among the priorities of the reform agenda [3].

An approved budget, however, is useful as a policy instrument only when execution stays reasonably close to it. If actual spending regularly departs from the approved figures, the decisions taken during budget preparation lose their weight, the allocation of resources shifts to the execution stage and parliamentary scrutiny becomes a formality. For this reason the planning of expenditures cannot be separated from the question of budget credibility, that is, from how well the approved budget predicts what will actually be spent.

The theoretical basis for this argument is well established. Schick describes three levels of outcomes of public expenditure management, namely aggregate fiscal discipline, allocative efficiency and operational efficiency, and stresses that the second and third cannot be achieved if the first is not secured at the planning stage [4]. The international handbook edited by Allen, Hemming and Potter treats budget preparation as an interaction between a top-down decision on the aggregate envelope and bottom-up requests of spending units, with the expenditure ceiling as the point where the two meet [5]. Cross-country panel evidence presented by Vlaicu, Verhoeven, Grigoli and Mills indicates that multiyear budget frameworks are associated with stronger fiscal discipline, while more developed frameworks that link spending to results also support allocative efficiency [6].

A second strand of the literature deals with forecasting bias. Frankel and Schreger show that official budget forecasts in the euro area tended to be over-optimistic,



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particularly in countries bound by fiscal rules, which led to systematic deviations of outturns from plans [7]. The experience of the Republic of Korea, analysed by Kim and Park, demonstrates how the introduction of top-down budgeting with ministry-level ceilings changed the division of labour between the finance ministry and line ministries [8]. For Uzbekistan, Khakberdiev documents that in 2023 and 2025 actual expenditure exceeded planned expenditure by roughly 10–13 per cent and calls for better short-term forecasting [9].

Existing studies of the Uzbek budget mostly describe the size of these deviations. Less attention has been paid to the link between unplanned spending and unplanned revenue and to the institutional mechanism that could keep the approved budget binding. The aim of this article is to assess the plan–outturn deviations of the consolidated budget in 2022–2025 and, on this basis, to substantiate the foundations for improving the practice of state budget expenditure planning.

Materials and methods

The study uses the approved parameters of the consolidated budget as set out in the annual budget laws for 2023–2025 [2] and, for 2022, in the Citizens' Budget publication of the Ministry of Economy and Finance [10]. Execution data for 2023 are taken from [9], for 2024 from the official balance of the consolidated budget [11] and for 2025 from the ministry's annual execution report as published in the press [12]. The consolidated budget covers the State Budget, the state target funds, the Fund for Reconstruction and Development, the extra-budgetary funds of budget organisations and government programmes financed by external borrowing [11]. Using this aggregate avoids distortions caused by transfers between its components.



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Three indicators are calculated. The expenditure outturn ratio compares actual and approved expenditure,

$$O(E) = E(actual) / E(approved) \times 100\%, \quad (1)$$

and the revenue outturn ratio $O(R)$ is defined in the same way. The mean absolute deviation summarises the size of errors over the period regardless of their sign. To capture the relationship between revenue surprises and spending decisions, the article introduces a windfall absorption ratio,

$$WAR = (E(actual) - E(approved)) / (R(actual) - R(approved)), \quad (2)$$

where E is expenditure and R is revenue. A value above one means that unplanned spending exceeded unplanned revenue and the deficit widened relative to the plan, a value between zero and one means that part of the windfall was saved, and a value close to zero indicates that the approved expenditure envelope was held. The quantitative part is complemented by a comparative institutional analysis of expenditure ceiling frameworks in four countries with long-standing practice in this area. The main limitations are the short time series and the use of initially approved figures, which do not reflect amendments adopted during the year.

Results

The first step of the analysis is a comparison of approved and actual budget aggregates. Table 1 shows that the consolidated budget grew quickly in nominal terms, from 321.7 trillion UZS of actual expenditure in 2022 to 541.7 trillion UZS in 2025, and that the approved figures were exceeded on both sides of the budget in every year of the period.



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Table 1 Approved and actual parameters of the consolidated budget of Uzbekistan, 2022–2025

Indicator	2022	2023	2024	2025
Revenue, approved, trillion UZS	254.6	310.7	375.0	431.0
Revenue, actual, trillion UZS	286.5	321.0	385.8	502.6
Revenue outturn ratio O(R), %	112.5	103.3	102.9	116.6
Expenditure, approved, trillion UZS	280.1	343.2	427.6	480.5
Expenditure, actual, trillion UZS	321.7	380.0	433.7	541.7
Expenditure outturn ratio O(E), %	114.9	110.7	101.4	112.7
Deficit limit in the budget law, % of GDP	3.0	3.0	4.0	3.0
Actual deficit, % of GDP	4.0	5.5	3.3	2.1
Windfall absorption ratio (WAR)	1.30	3.57	0.56	0.85

Source: compiled and calculated by the author on the basis of [2; 9; 10; 11; 12].

The 2023 actual revenue is derived from the reported expenditure and deficit.

The expenditure outturn ratio exceeded 110 per cent in three of the four years. Only in 2024 did actual spending stay within five per cent of the approved level, and that was the year in which the budget law set a more realistic deficit limit of 4 per cent of GDP. The mean absolute deviation of expenditure over the period was 9.9 per cent. Revenue was also underestimated every year, with a mean absolute deviation of 8.8 per cent. The largest revenue surprise occurred in 2025, when receipts exceeded the forecast by 16.6 per cent, largely because of high world gold prices [9].

The direction of the errors matters as much as their size. Revenue forecasts in Uzbekistan were conservative rather than optimistic, and the resulting windfalls became an informal source of in-year spending. Figure 1 compares revenue and expenditure above the approved levels for each year and reports the windfall absorption ratio under the bars.



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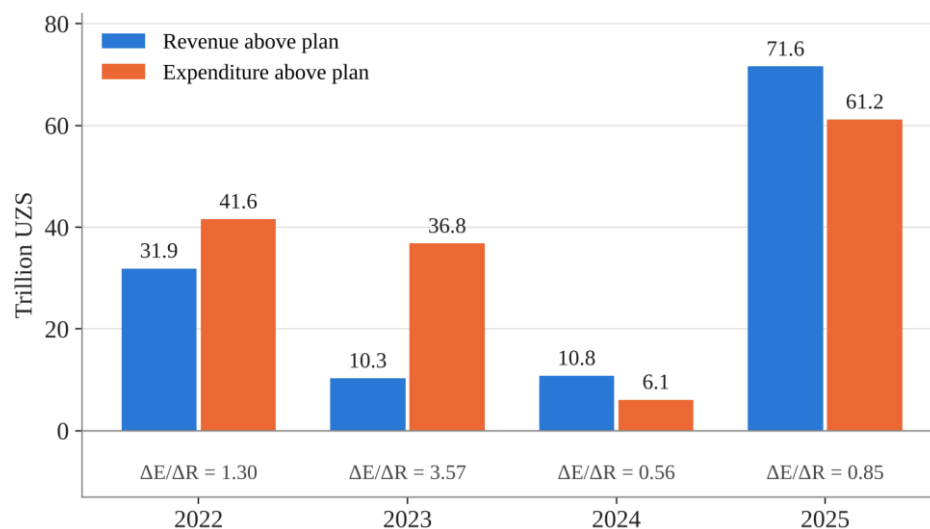


Figure 1. Consolidated budget revenue and expenditure above approved levels, 2022–2025 (trillion UZS)

Source: calculated by the author from the data in Table 1.

The year 2023 stands out. Revenue exceeded the plan by only 10.3 trillion UZS, but expenditure exceeded it by 36.8 trillion UZS, so that each additional sum of revenue was matched by more than three and a half sums of unplanned spending and the deficit reached 5.5 per cent of GDP against a limit of 3 per cent [9]. In 2025 the picture was different in level but similar in logic. The revenue windfall of 71.6 trillion UZS allowed the deficit to fall to 2.1 per cent of GDP, yet 85 per cent of it was spent during the year. Taken together, unplanned expenditure in 2022–2025 amounted to 145.7 trillion UZS against 124.6 trillion UZS of unplanned revenue, which gives a cumulative absorption ratio of 1.17.

A further pattern helps to explain these numbers. The approved expenditure for each year was set only 6.7 per cent (2023), 12.5 per cent (2024) and 10.8 per cent (2025) above the actual outturn of the previous year, whereas actual expenditure grew by 18.1, 14.1 and 24.9 per cent respectively. In other words, the plan



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systematically understated how fast the nominal spending base would grow, and in-year additions, once made, carried over into the next year as part of the baseline. This is a planning problem rather than an execution problem, because the gap is built into the approved figures from the start.

International practice offers several ways to anchor expenditure more firmly. Table 2 summarises four frameworks that differ in design but share one feature, namely an expenditure limit that is decided before detailed allocations and is protected during execution.

Table 2 Expenditure ceiling frameworks in selected countries

Country	Instrument and year introduced	Horizon and coverage	Relevance for Uzbekistan
Sweden	Nominal expenditure ceiling (1997)	Set three years ahead; central government and the old-age pension system; a budget margin is kept below the ceiling	A binding aggregate ceiling approved by parliament before detailed allocations
Netherlands	Real expenditure ceilings under trend-based budgeting (1994)	Cabinet term of four years; revenue and expenditure decisions are separated	Revenue windfalls are not used for additional spending
Republic of Korea	Top-down budgeting with a five-year National Fiscal Management Plan (2004–2005)	Five years; ceilings by ministry, reallocation within ceilings by line ministries	The finance ministry concentrates on aggregates, ministries on priorities
United Kingdom	Spending reviews with Departmental Expenditure Limits (1998)	Usually three years; limits for controllable spending, annual management of demand-led items	Separating controllable spending from demand-driven obligations

Source: compiled by the author on the basis of [5; 8].



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The common lesson of these cases is that a deficit rule alone does not stabilise expenditure planning. When revenue turns out higher than forecast, a deficit limit permits more spending, and if the limit is breached, it is usually revised. An expenditure ceiling, by contrast, ties the approved envelope to the decision taken at the planning stage and leaves the treatment of revenue surprises to a separate, pre-announced rule.

Discussion

The results suggest that the main weakness of expenditure planning in Uzbekistan lies not in revenue forecasting as such but in the absence of a binding expenditure anchor. The pattern differs from the one described by Frankel and Schreger for the euro area, where optimistic forecasts produced unplanned deficits [7]. In Uzbekistan cautious revenue forecasts create a hidden reserve that is allocated outside the regular budget preparation process. Such allocations are not compared with competing proposals and are usually decided under time pressure, which, following Schick, weakens allocative efficiency even when aggregate discipline is formally maintained [4].

The 2024 experience is instructive. A deficit limit that was closer to the realistic needs of the economy produced the smallest deviation of the whole period. This supports the view that the credibility of the plan depends on whether the approved envelope is realistic in the first place. At the same time, the reforms envisaged by the Strategy for 2025–2030 create an opportunity to embed expenditure ceilings into the annual budget cycle [3], building on the two-year budget targets already required by the Budget Code [1].

On the basis of the analysis, the article proposes a three-stage framework for expenditure planning, shown in Figure 2. It brings together the top-down and



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bottom-up logic described in the international literature [5; 6] and adds two control mechanisms that respond directly to the problems identified above.

At the first stage the fiscal strategy sets an aggregate expenditure ceiling for the coming year and the two following years, consistent with the deficit rule and the macro-fiscal forecast. The ceiling for the budget year is approved by parliament, while the outer-year ceilings are indicative but can be changed only with a published reconciliation that explains every revision. At the second stage the ceiling is divided among first-level budget spending units. Each ministry ceiling consists of a baseline, which reflects the cost of existing policies indexed to wages, prices and demand, and a limited envelope for new initiatives. As the Korean experience shows, this division moves detailed prioritisation to the ministries and lets the finance ministry concentrate on aggregates [8]. At the third stage budget requests are prepared bottom-up within the ministry ceilings and linked to programmes, outputs and result indicators.

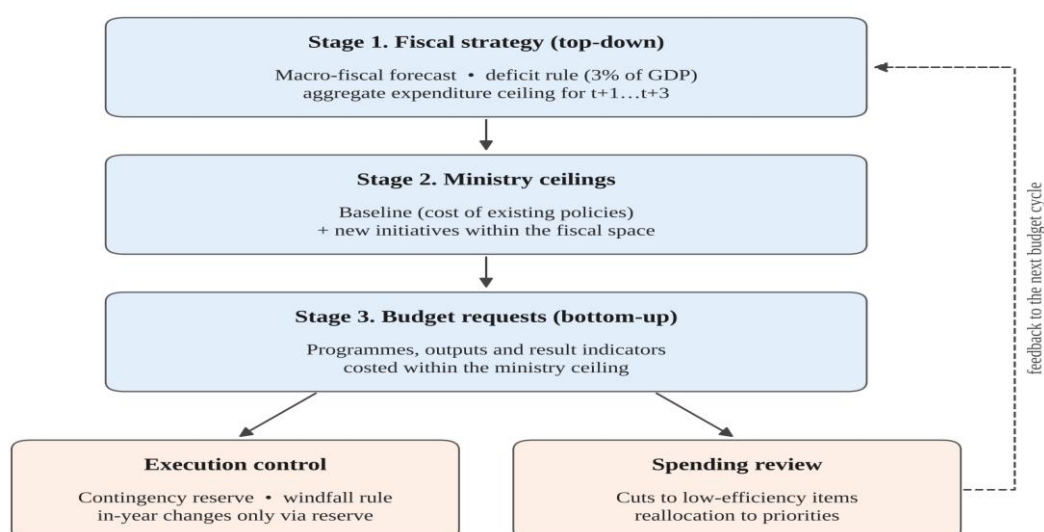


Figure 2. Proposed three-stage framework for state budget expenditure planning
Source: developed by the author.



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The control mechanisms address the two weaknesses revealed by the data. First, a contingency reserve of about 1–2 per cent of expenditure should become the only regular channel for in-year additions, together with a windfall rule that directs revenue above the approved forecast primarily to deficit reduction and the reserve. A simple arithmetic illustration shows the potential of such a rule. Had the absorption ratio been capped at one in 2023, unplanned spending would have been limited to 10.3 trillion UZS and the deficit would have stayed at the planned level of about 32.5 trillion UZS instead of 59.0 trillion UZS. With a cap of 0.5 in 2025 the deficit would have been about 13.7 trillion UZS instead of 39.1 trillion UZS. These figures ignore second-round effects and are given only to show the order of magnitude. Second, regular spending reviews of the baseline should identify low-efficiency items and free resources for priorities, feeding the results back into the next planning cycle.

The proposals have limits. Expenditure ceilings require reliable multi-year costing and a stable classification of expenditure, which take time to build. The short period covered by the analysis and the reliance on initially approved figures also mean that the results should be read as indicative. Further research could extend the series, analyse deviations by ministry and function and test whether the windfall absorption ratio is linked to commodity price cycles.

Conclusion

The analysis of the consolidated budget of Uzbekistan in 2022–2025 leads to three conclusions. First, actual expenditure exceeded approved expenditure in every year, with a mean absolute deviation of 9.9 per cent, so the approved budget only partly performs its role as a planning document. Second, revenue forecasts were conservative, and the resulting windfalls were largely spent during the year, as shown by a cumulative windfall absorption ratio of 1.17. Third, the planned



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growth of expenditure was systematically set well below its actual growth, which made in-year additions a recurring feature of the budget process.

Improving the practice of expenditure planning therefore requires a binding medium-term expenditure ceiling approved before detailed allocations, ministry ceilings that separate the baseline from new initiatives, a contingency reserve as the single channel for in-year additions, an explicit rule for revenue windfalls and regular spending reviews. Publishing the outturn ratios and the windfall absorption ratio together with the annual budget documents would make progress visible to parliament and the public and strengthen the credibility of the state budget as an instrument of economic policy.

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