



UNIVERSITY OF CENTRAL ASIA
GRADUATE SCHOOL OF DEVELOPMENT
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Fiscal Policy for Technological Development in Central Asian Economies

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Contents

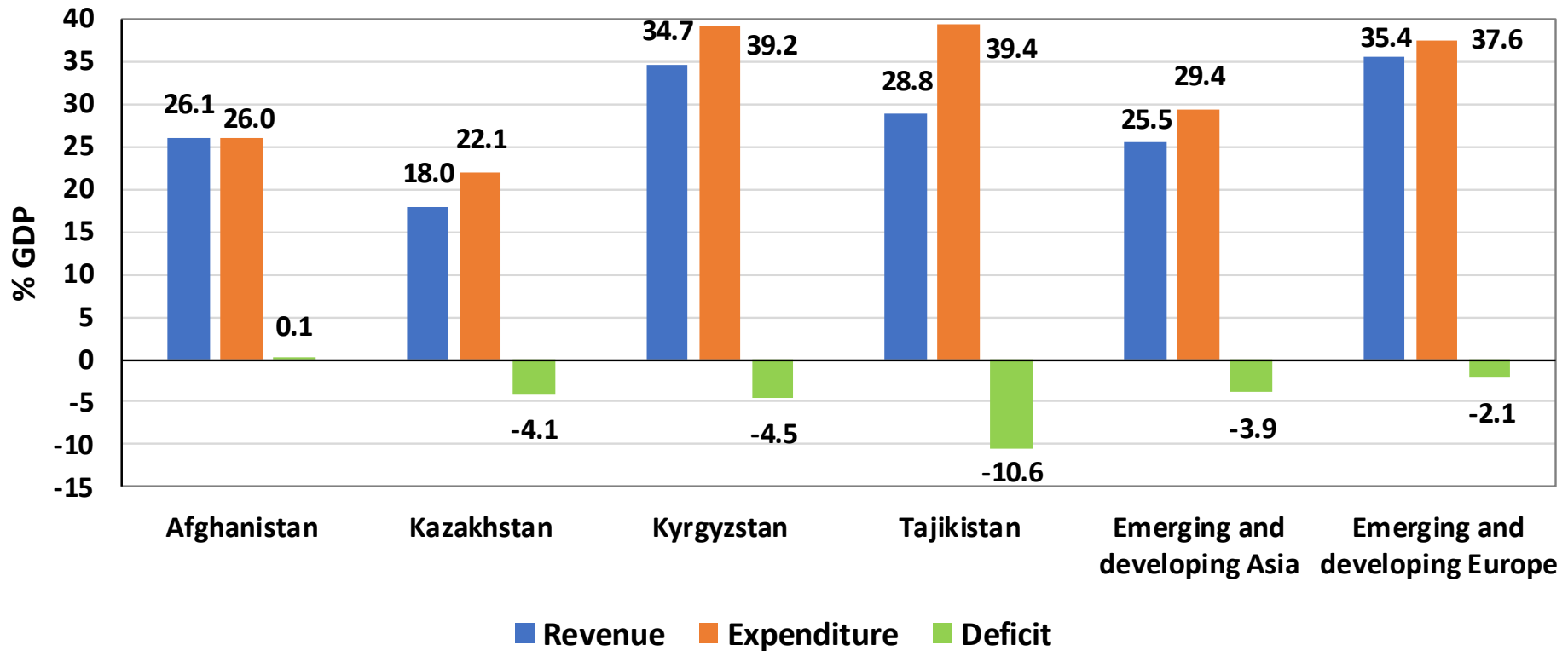
- Technological development and fiscal policy
- Trends in fiscal policy of the countries of Central Asia
- Issues in fiscal policies of the countries of the region (with a focus on Kyrgyzstan)
- Which fiscal policy would best facilitate technological development in Central Asia at its current level of development?
- Conclusions and policy recommendations

Development Context in Central Asia

- The period of fast recovery growth of the Central Asian economies seems to be [over](#)
- At the new stage, economic development would require growth in labor productivity achievable only through the use of modern technologies
- This type of development requires an access to these technologies and people capable to productively utilize them
- Fiscal policy (government budget revenue and expenditure) is one of the most powerful government's tools and could significantly speed up/slow down the technological development
- In this regards, what are the tasks of fiscal policy?

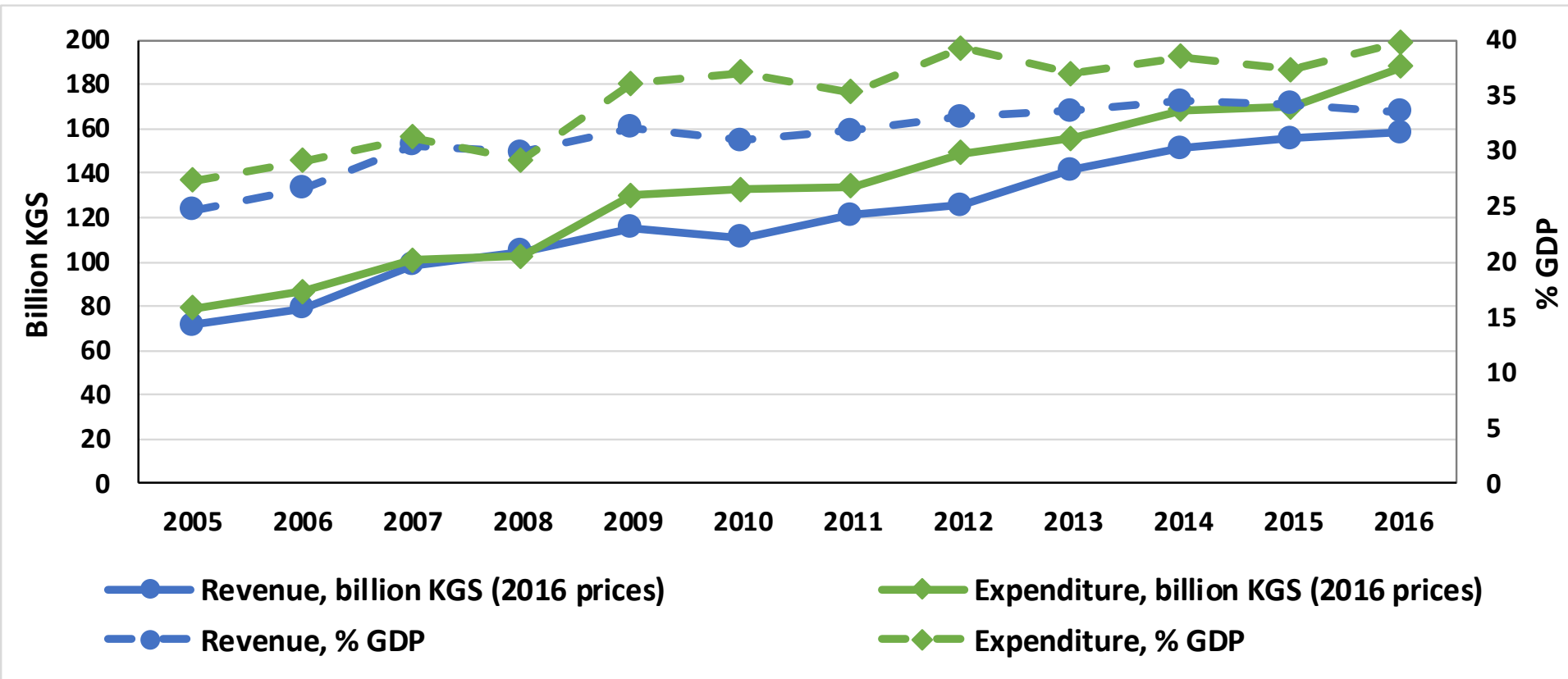
Budget Trends in CA

- High level of revenue, expenditure and deficit of general government budget



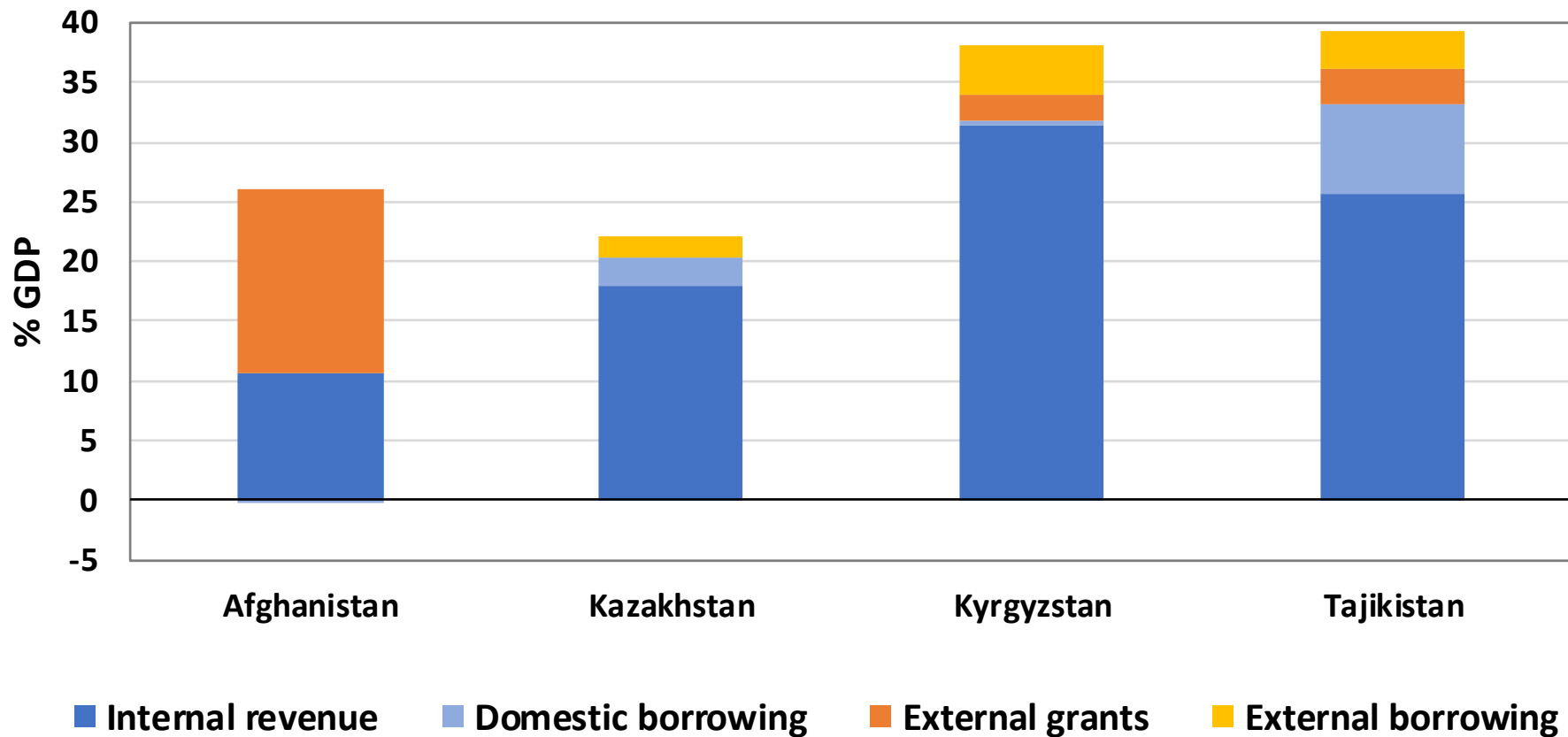
Budget Trends in CA (2)

- In Kyrgyzstan, revenue, expenditure, and deficit keep growing



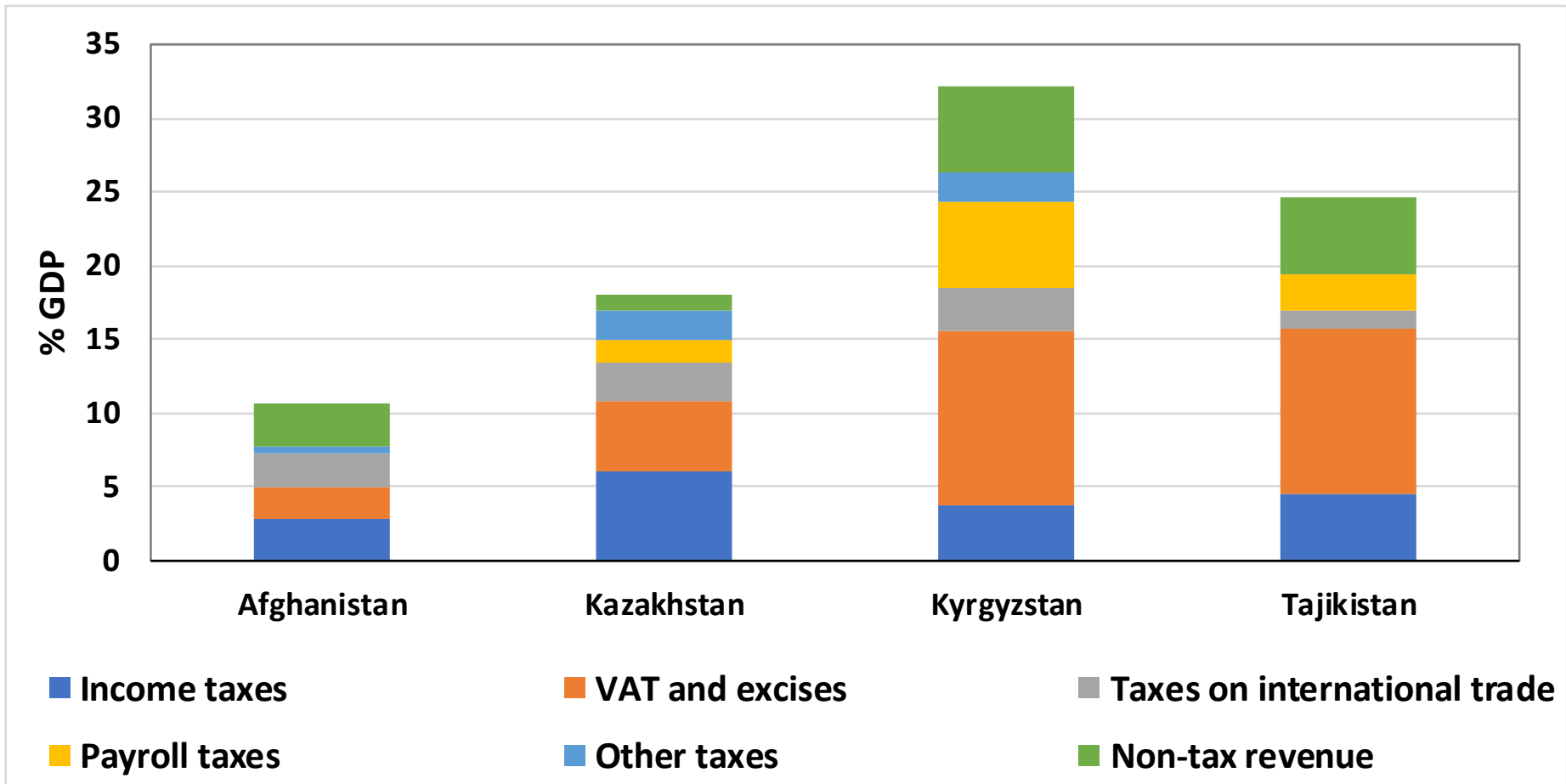
Budget Trends in CA (3)

- Big role for foreign aid in budget expenditure financing



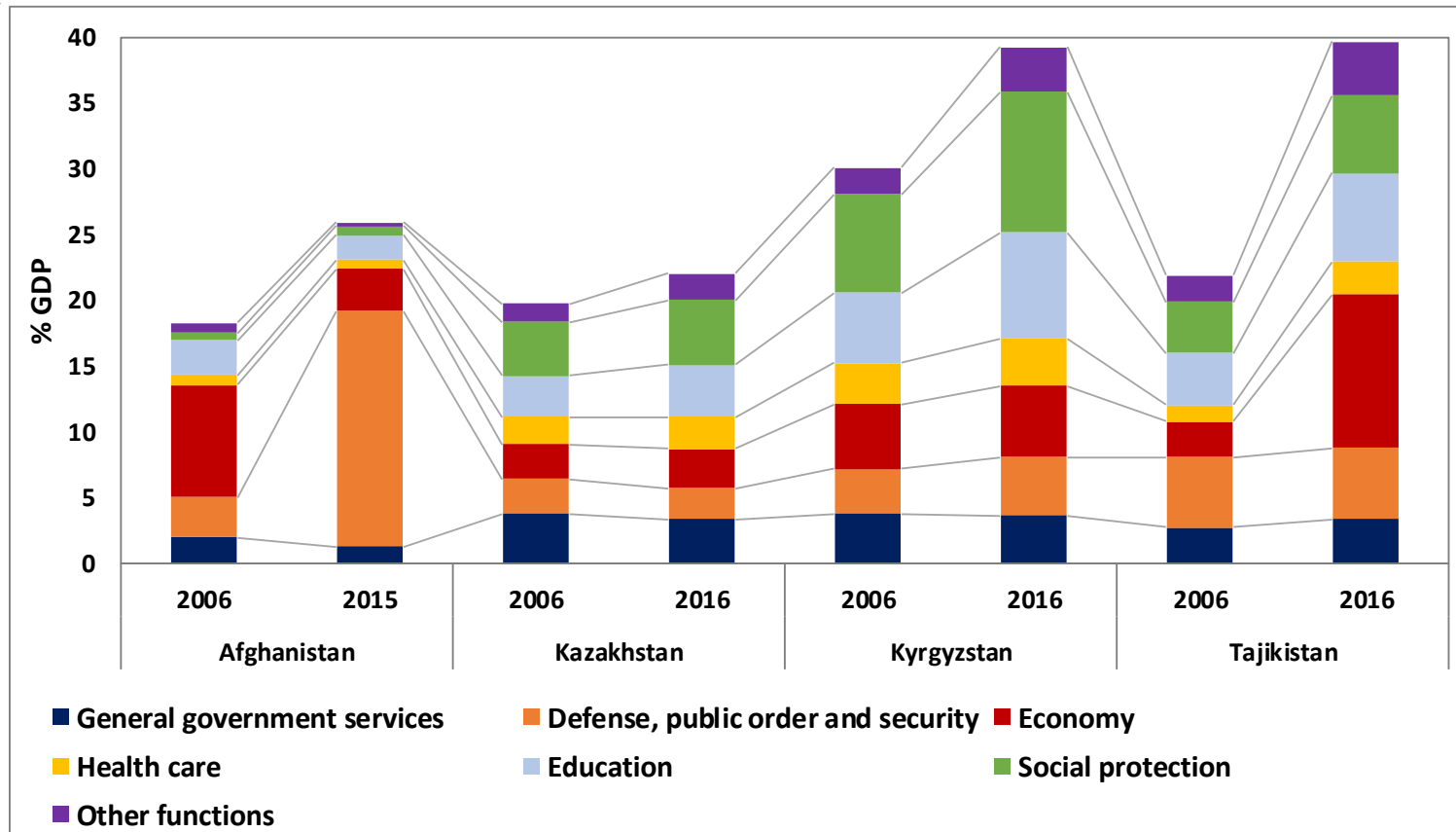
Budget Trends in CA (4)

- Key items of domestic revenue are indirect taxes and payroll taxes/contributions to the Social Fund



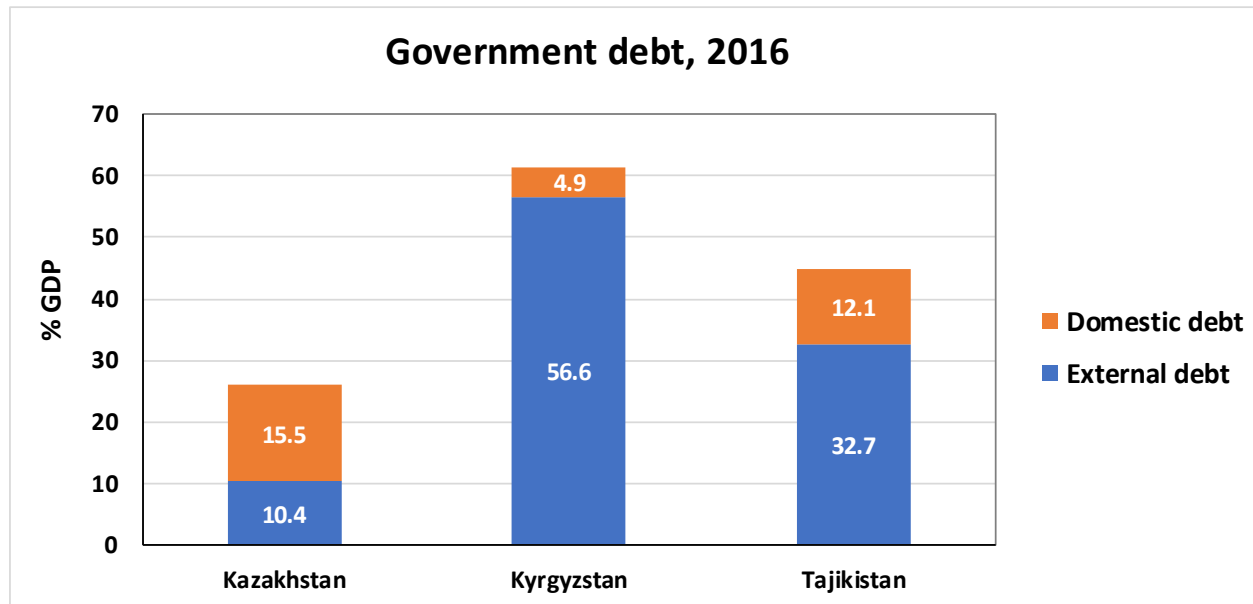
Budget Trends in CA (5)

- The largest expenditure items are social protection and social insurance, economic issues and education
- The share of capital investments in total budget expenditure fluctuates around 20%



Budget Trends in CA (6)

- Budget deficit interpretation in CA (except Kazakhstan) is different from traditional one
 - ability to borrow for PIP implementation
 - Eurobond issue by Tajikistan
- Government debt risks: low in Kazakhstan, medium in Kyrgyzstan, high in Tajikistan



Issues in Fiscal Policy

- High level of government revenue and expenditure relative to GDP
 - «premature welfare state»
 - expectations re government's capacity and responsibilities are high and are in need for downscaling
 - no room for further expansion
 - tax burden is big and unevenly distributed
 - many services are financed by taxpayers rather than service users – implications for the services quality

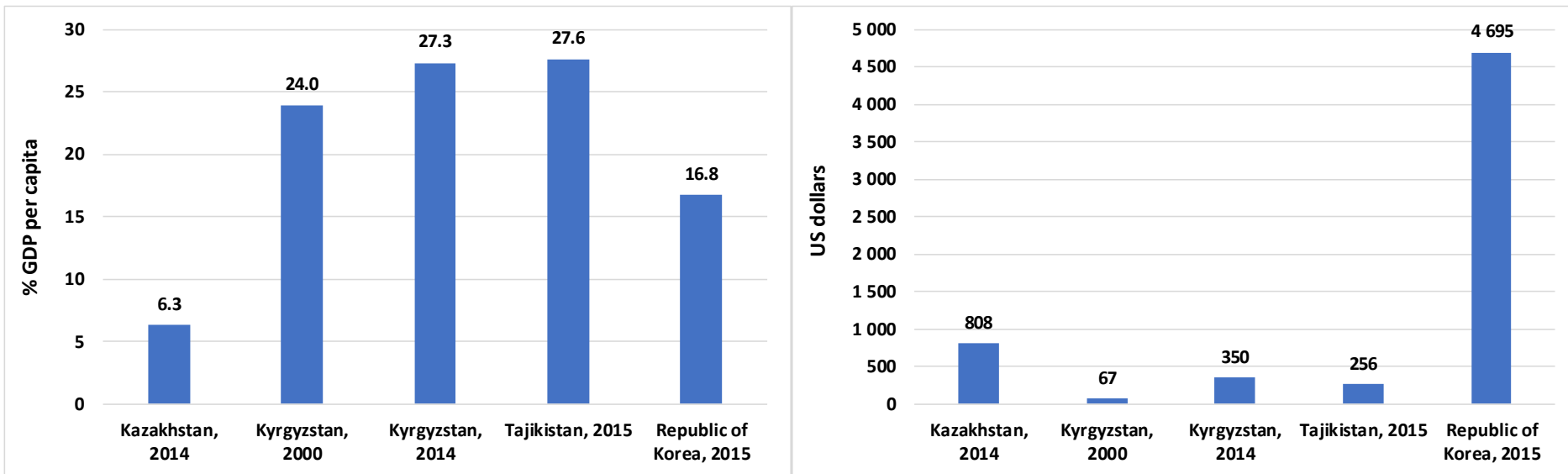
Issues in Fiscal Policy (2)

- Tax structure specificity
 - direct taxes are less important
 - very high payroll taxes
 - low excises
 - low property and mining taxes (except Kumtor)
 - broad use of special taxation regimes (patent etc.)
 - tax privileges

Issues in Fiscal Policy (3)

- Strong dependence on foreign aid
 - unsustainable situation in the long-term
 - foreign debt sustainability remains an issue
- While government expenditures are high as share of GDP, these are rather low in absolute terms

Public education expenditures per one student

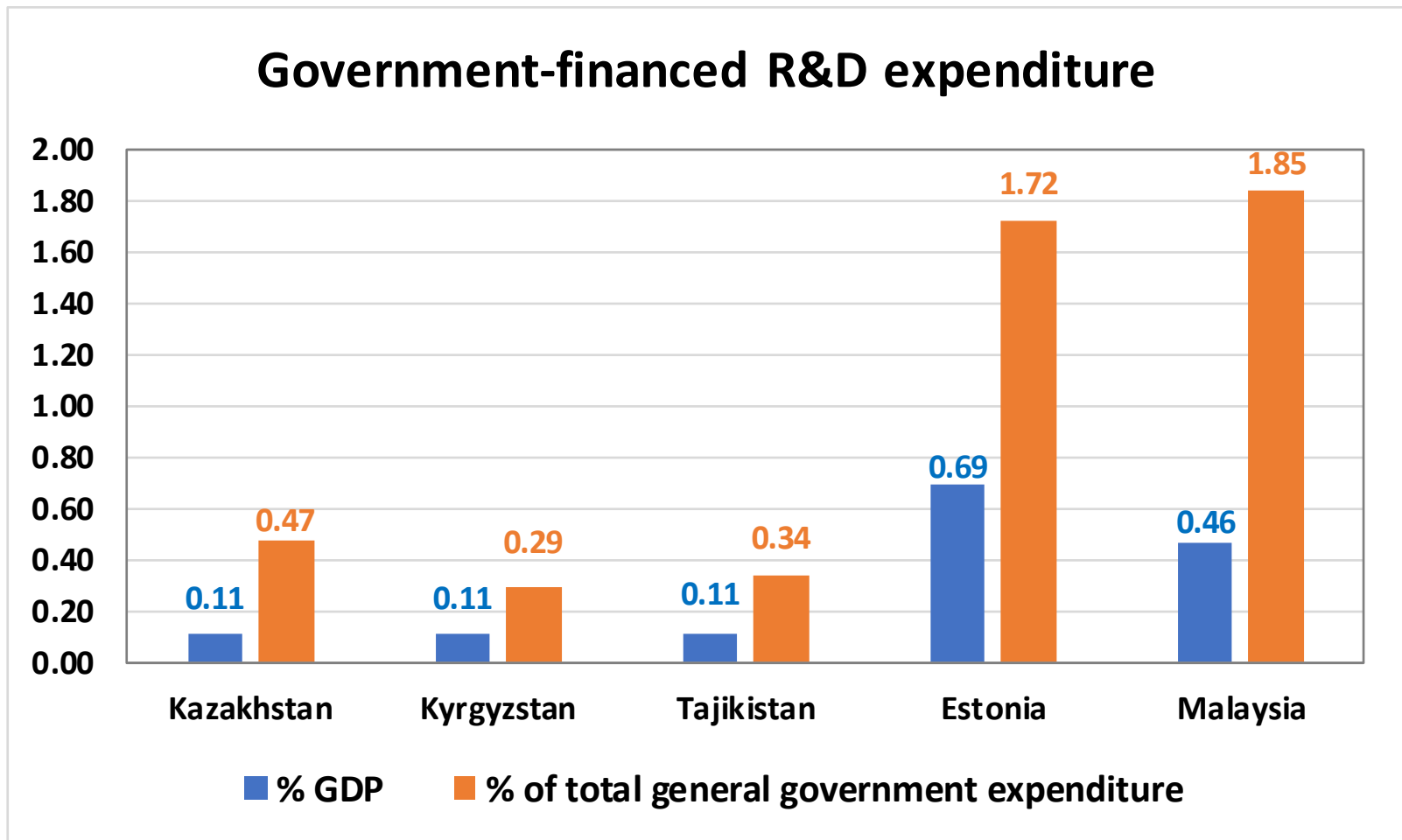


Issues in Fiscal Policy (4)

- Radical increase in efficiency of government expenditures is needed – prioritization, competitive environment
- Insufficient expenditures on critically important types of government services (irrigation, veterinary etc.)
- Pension system – social insurance or social protection?
 - if social protection, then it should be financed by general taxes and not by the distorting payroll tax (contributions to the SF)

Government Budget and Technologies

- Focus on support of technologies' transfer/use rather than R&D support



Government Budget and Technologies (2)

- For technological development, macroeconomic stability is needed and should be achieved, *inter alia*, through sound fiscal policy
- Infrastructure
 - reliable power/water supply as a priority
- Education system development
 - expenditure increase (Kazakhstan)
 - efficiency improvement (teacher salaries, quality of textbooks, facilities etc.)
 - what is a priority – elite or general education?

Government Budget and Technologies (3)

- Utilization of skilled labor force
 - gradual elimination of payroll taxation
 - instead, increase in taxes which are essentially taxes on shadow economy (excises, property taxes etc.)
- Privileged taxation of domestic and foreign producers of technological goods and services
 - access to such privileges should be decoupled from the size and legal form of enterprise
- Support to advisory services/engineering consulting and content creation

Conclusions and Policy Implications

- Government budgets are too large in Central Asia in comparison to the size of these economies
- The dependence on foreign aid is large, too
- Improvement in government expenditure efficiency is a high priority; some structural changes seem to be also necessary
- Elimination of payroll tax is a key item of the medium-term policy agenda
- A series of fiscal measures (mentioned above) may need to be implemented which would facilitate creation of friendlier environment for technological development

GDP Growth

Average annual GDP growth rate

