

## Causes and Consequences of Budget Deficit

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**Abstract:** The paper presents the causes and consequences of the budget deficit, and analyzes the current situation in Uzbekistan. Proposals and recommendations were formed as a result of research.

**Key words:** budget deficit, tax, income, fiscal policy

### INTRODUCTION

A budget deficit is a fiscal situation in which a government's total expenditures exceed its total revenues over a specific period, resulting in a negative balance. That is, a budget deficit occurs when a government's spending on public services, infrastructure, and other projects surpasses the revenue it generates (from taxes, fees, etc.). Although this financial imbalance may require borrowing or reducing savings, it can help governments invest in initiatives that provide long-term benefits to their citizens.

If the government utilizes an expansionary fiscal policy, then a budget deficit will likely occur. Expansionary fiscal policy will increase government spending and lower taxes to boost aggregate demand. This is desirable to address recessions, but will likely push the budget into a deficit. Therefore, it can be difficult to follow the rule of avoiding a deficit at all costs.

### Literature review

M.Sawyer was able to consider the relationship between the size of the budget deficit and the achievement of full employment, taking into account the financing and financing of public and private expenditures [1].

J. Mawejje and N.M. Odhiambo researches economic growth, debt, unemployment rate, trade openness, level of development (gross domestic product per capita), level of urbanization, extreme weather events, current account balance, inflation, aid, military spending, also researched as political factors and the quality of budget institutions as an important determinant of budget deficit [2].

Also J.Furman and L.H. Summers were able to study the impact of the budget deficit on the country's economic growth [3].

Z. Ahrorov considered the analysis of the economic limitation of the tax potential to the budget income, recognizing that it is the research of the importance of the tax payment potential in the regulation of tax relations and the justification of its role in increasing budget revenues [4].

I.Alimov recognized the existence of the problem of the state budget deficit since the independence of the Republic of Uzbekistan until now, revealed the essence of the state budget deficit and the basis of its financing methods, its development stages and specific features in international practice [5].

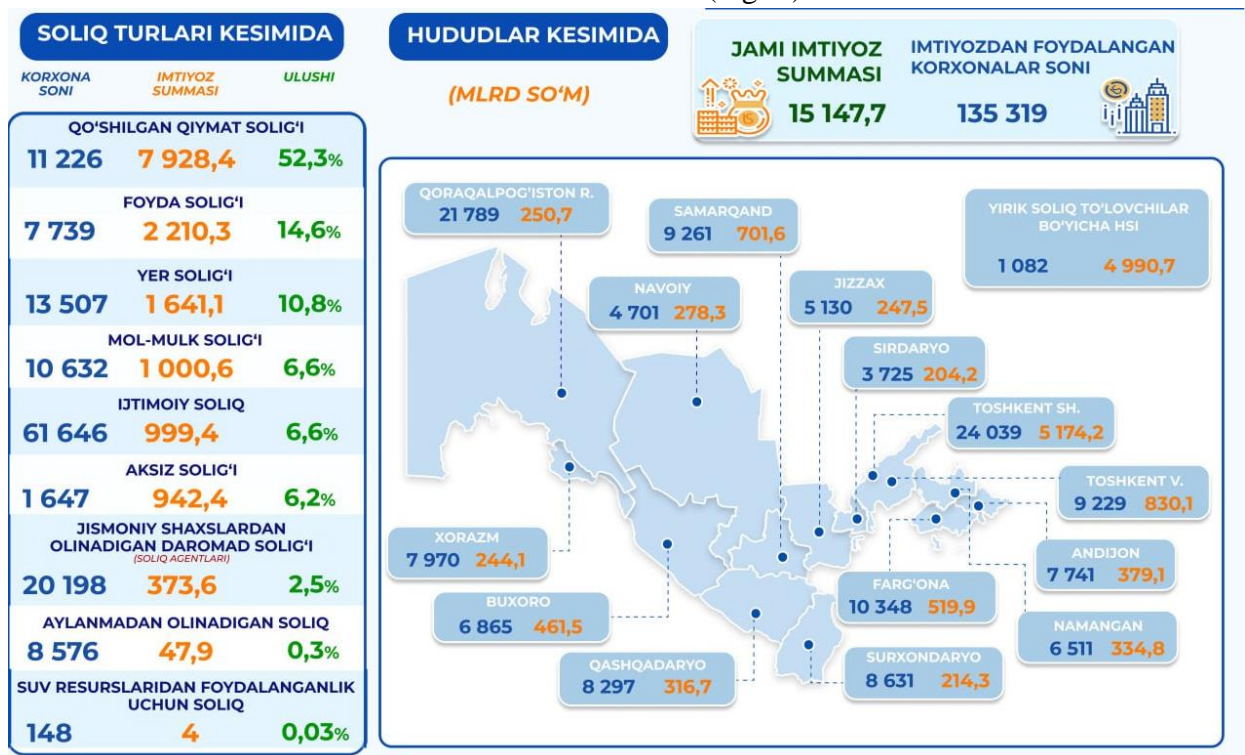
**Main part**

Understanding the causes of a budget deficit is essential for addressing and mitigating its impact on the economy. Here are some common budget deficit causes:

- Economic downturns and rising unemployment – recessions and rising unemployment can lead to lower tax revenues and increased welfare spending. For example, during the 2008 financial crisis, many governments experienced decreased tax revenues as businesses struggled and unemployment rose, contributing to budget deficits. This situation also had negative impacts on Uzbekistan;

- Decreased consumer spending – a decrease in consumer spending results in less tax revenue for the government. During periods of economic uncertainty, consumers may cut back on their spending, leading to reduced sales tax revenue and exacerbating budget deficits;

- Increased government spending and fiscal stimulus - governments may increase spending on public services, infrastructure, or defense to stimulate economic growth or address pressing needs. Additionally, using fiscal stimulus to lift aggregate demand can contribute to budget deficits. During the COVID-19 pandemic, governments worldwide increased spending on healthcare, relief packages, and economic stimulus plans, leading to larger budget deficits. In particular, in our country Uzbekistan, in January-August 2023, more than 135.3 thousand organizations used tax incentives with a total value of more than 15.1 trillion soms (Fig. 1).



**Fig. 1. Tax incentives used in January-August 2023<sup>1</sup>**

- Demographic factors – an ageing population or other demographic changes can lead to increased social services and healthcare spending, contributing to budget deficits. For example, many developed countries face the challenges of an ageing population, putting pressure on their pension systems and healthcare services;

- Unplanned Emergencies – natural disasters, public health crises, or military conflicts can strain a government's budget, leading to deficits.

<sup>1</sup> Information of the Tax Committee under the Cabinet of Ministers of the Republic of Uzbekistan

In summary, budget deficit causes can include economic downturns and rising unemployment, decreased consumer spending, increased government spending and fiscal stimulus, high interest payments and rising interest rates, demographic factors, and unplanned emergencies. Recognizing and addressing these factors can help governments manage their budgets more effectively and maintain fiscal stability.

Budget deficits can have both positive and negative implications for a country's economy. While they may contribute to economic growth and development, they can also lead to financial instability and other economic challenges. In this context, it's essential to evaluate the advantages and disadvantages of budget deficits to make informed fiscal decisions.

A budget deficit can sometimes serve as a powerful tool for promoting economic growth and addressing pressing social needs. Here are some advantages of budget deficits:

- Economic Stimulus – deficit spending can help stimulate economic growth during a recession by increasing aggregate demand, creating jobs, and boosting consumer spending;

- Investment in Infrastructure – budget deficits can finance essential investments in infrastructure, education, and healthcare, which can lead to long-term economic growth and improved quality of life.

- Countercyclical Fiscal Policy – deficit spending can help stabilize the economy during economic downturns by acting as a countercyclical fiscal policy, reducing the severity and duration of recessions.

### **Conclusion**

On the other hand, budget deficits can also have negative consequences on the economy and financial stability. Here are some disadvantages of budget deficits:

- Increased Public Debt – persistent budget deficits can lead to a rise in public debt, which can burden future generations with higher taxes and reduced public services;

- Higher Interest Rates – increased government borrowing can result in higher interest rates, making it more expensive for businesses and consumers to borrow money, potentially slowing down economic growth;

- Inflation – financing budget deficits by printing more money can lead to inflation, eroding the purchasing power of consumers and negatively affecting the overall economy.

In summary, budget deficits offer advantages such as economic stimulus, investment in infrastructure, and countercyclical fiscal policy, while also presenting disadvantages like increased public debt, higher interest rates, and inflation. By carefully considering these factors, policymakers can strike the right balance between the benefits and drawbacks of budget deficits to achieve sustainable economic growth and fiscal stability.

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