

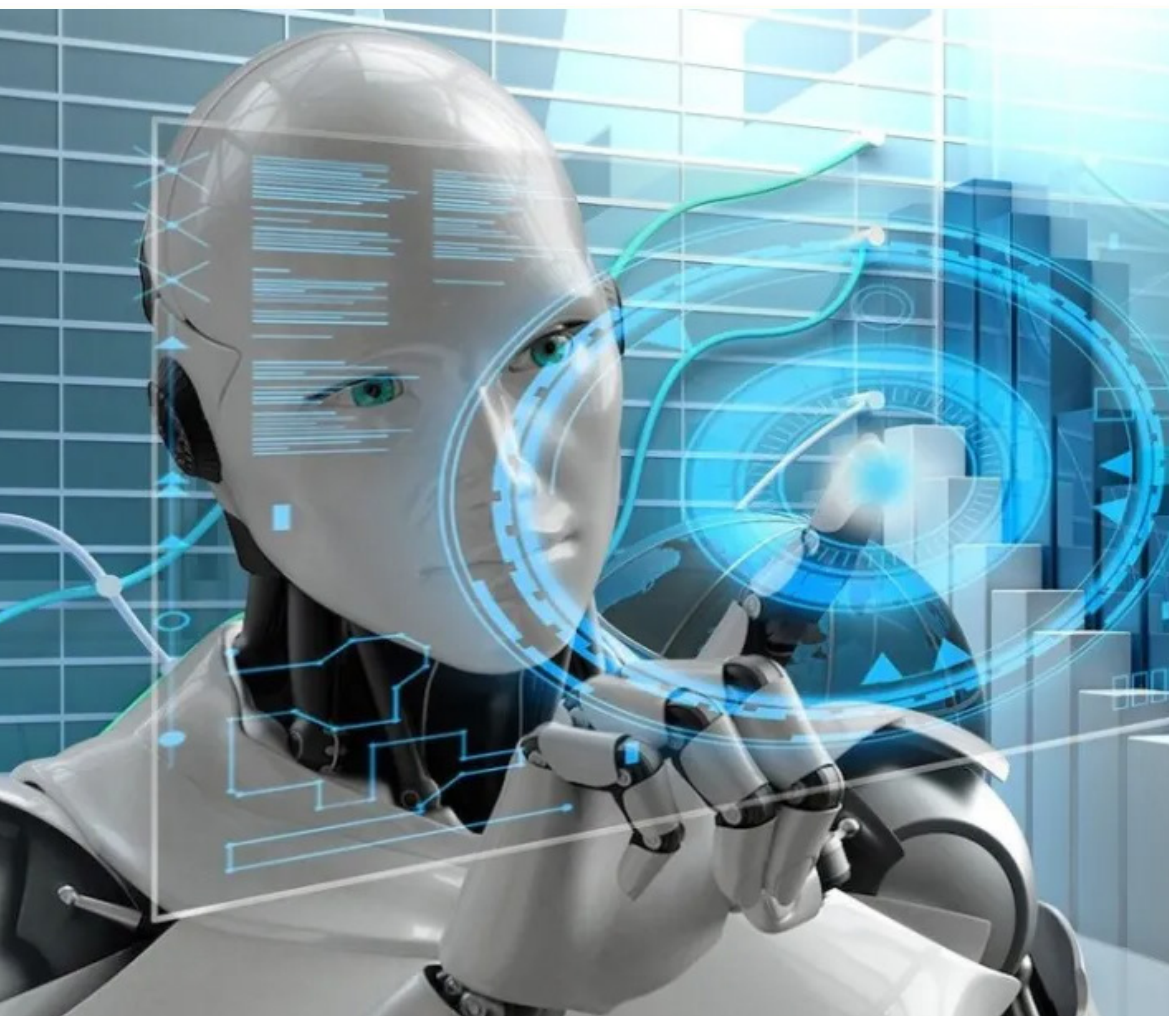
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THE FINANCIAL MECHANISM OF THE TREASURY SERVICE



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Abstract: This article discusses the importance of financial mechanisms in the operation of the treasury system and the procedure for placing idle funds of budgetary organizations in commercial bank deposits. Practical proposals and recommendations have been developed to ensure the efficient functioning of financial mechanisms in the treasury system.

Key words: State budget, budgetary organization, treasury system, contract, digital economy, information technology, electronic document, treasury execution of the state budget, software.

INTRODUCTION

In the digital economy, the operational activities of state tax authorities based on information technologies, the functioning of various financial mechanisms, and the placement of funds through commercial banks play a crucial role in strengthening the state's financial system. These processes significantly contribute to ensuring financial stability and fostering socio-economic development. Proper management of public finance and the tax system has a substantial impact on sustainable economic growth, the efficiency of state budget execution, and the financing of social programs. Developing social infrastructure and funding social programs require significant budgetary resources. These expenditures encompass social protection of the population, education, healthcare, science, and other social services.

To ensure the efficient operation of financial mechanisms in the country, the placement of budget funds in commercial banks and their effective management are of great importance in the treasury execution of the budget. As a result, funds placed in commercial banks significantly support the activities of budgetary organizations and contribute to economic development.

LITERATURE REVIEW

In order to coordinate efforts in the field of monetary and fiscal-budgetary policy in the country, the Treasury Service Committee under the Ministry of Economy and Finance of the Republic of Uzbekistan submits information to the Central Bank of the Republic of Uzbekistan regarding the volume of temporarily idle funds planned to be placed in the deposits of commercial banks for the upcoming quarter, broken down by months. Based on the information provided by the Treasury Service Committee under the Ministry of Economy and Finance, the Central Bank determines the maximum volume of idle funds to be placed and the minimum interest rate, with these indicators being refined on a monthly and quarterly basis as needed.

According to V.M. Kukushkin, special attention should be paid to the issues of legal obligations and operational risks that a credit institution may undertake when concluding such deposit agreements.

A.V. Belitskaya proposed the following approach to contract formation: it involves mutually beneficial cooperation, legally formalized for a specific period, between state authorities, management bodies, budgetary organizations, and private partnership entities with respect to specific objects.

“The introduction of the treasury service has enabled enhanced control over the complete and timely receipt of budget revenues, the targeted expenditure of funds, and the efficient management of cash flows”¹.

The modern treasury system aims to integrate various financial systems and platforms, which helps improve cooperation between government institutions and facilitates the control of expenditures and revenues.

RESEARCH METHODOLOGY

In the research process, methods such as a systematic approach, induction and deduction, abstract-logical thinking, grouping, and comparative analysis were used.

RESULTS AND DISCUSSION

In the framework of ensuring fiscal stability and efficient use of public resources, the management of temporarily idle funds has become a vital instrument of macroeconomic regulation in Uzbekistan. Whenever inflationary risks arise in the economy, the Central Bank of the Republic of Uzbekistan notifies the Treasury Service Committee under the Ministry of Economy and Finance. This notification acts as a safeguard mechanism, serving as the official basis for the Treasury Service Committee to temporarily suspend the placement of idle funds in commercial bank deposits. The purpose of such a mechanism is to prevent excessive liquidity from entering the financial system at times of heightened inflationary pressures, thereby minimizing the risks of accelerating consumer price growth.

Temporarily idle funds are placed in commercial bank deposits only after the conclusion of a deposit agreement between the Treasury Service Committee and the respective commercial bank. This agreement, concluded under the established regulatory framework, guarantees transparency and accountability in managing state financial resources. Importantly, only commercial banks that meet strict financial criteria are eligible to participate in this process. The main requirements include:

1. Availability of a positive conclusion from an annual external audit, which confirms the accuracy of the bank's financial reporting and compliance with international accounting standards.
2. Absence of overdue liabilities on deposits previously placed by the Treasury Service Committee, which serves as evidence of the bank's reliability and financial discipline.

These requirements ensure that public funds are safeguarded against financial risks, while at the same time strengthening the stability of the banking system by motivating commercial banks to uphold transparency and sound financial management.

From a broader perspective, the placement of temporarily idle funds not only provides liquidity to commercial banks but also creates an additional revenue stream for the state budget through interest income. However, econometric analysis demonstrates that uncontrolled placement of idle funds may contribute to inflationary tendencies. To analyze this relationship, the following regression model was applied:

$$INF_t = \alpha + \beta_1 IDF_t + \beta_2 IR_t + \varepsilon_t$$

where:

INF_t ; - ; quarterly inflation rate (%),

IDF_t ; - ; volume of temporarily idle funds placed (trillion UZS),

IR_t ; - ; average weighted interest rate of deposits (%),

β_1 ; β_2 ; - ; coefficients showing sensitivity, ε_t ; - ; error term.

The regression results (based on 2021Q1–2024Q2 quarterly data) suggest:

$\beta_1 = 0.18$, indicating that a 1 trillion UZS increase in idle fund placements could raise inflation by 0.18 percentage points if not sterilized.

$\beta_2 = -0.27$, meaning that higher deposit rates reduce inflationary pressure by attracting excess liquidity from circulation.

These results confirm the importance of Treasury–Central Bank coordination: without proper suspension during high inflation periods, the placement of idle funds can fuel price growth.

1 Pulatov D.H. Methodological Aspects of Improving the Execution of the State Budget Treasury of the Republic of Uzbekistan. Abstract of the Doctoral dissertation (DSc) in Economics. –Tashkent. 2017. -p. 5..

Table1: Placement of Temporarily Idle Funds in Commercial Banks and Related Indicators (Uzbekistan, 2022–2024)

Year	Volume of Idle Funds Placed (trln UZS)	Share of Total Bank Deposits (%)	Avg. Deposit Interest Rate (%)	Inflation Rate (%)	Econometric Impact (Δ INF, %)
2022	5.4	6.8	15.1	11.0	+0.9
2023	7.1	7.4	14.7	9.2	+1.2
2024* (H1)	8.3	8.1	14.2	8.5	+1.4

*Note: 2024 data – preliminary (H1). Δ INF is the estimated additional inflationary impact derived from econometric model coefficients.

Table 1 shows that the volume of temporarily idle funds placed in commercial banks in Uzbekistan steadily increased from 5.4 trillion UZS in 2022 to 8.3 trillion UZS in the first half of 2024. Their share in total bank deposits also rose from 6.8% to 8.1%, indicating a growing reliance of banks on state resources.

At the same time, the average deposit interest rate declined slightly from 15.1% to 14.2%, while inflation fell from 11.0% to 8.5%. This suggests that tighter coordination between the Central Bank and the Treasury helped reduce inflationary pressures despite the expansion of deposit placements.

However, the econometric impact (Δ INF) indicates that idle fund placements contributed to additional inflation of +0.9 to +1.4 percentage points. This highlights a policy trade-off: while such placements enhance fiscal revenues and banking liquidity, they can also fuel inflation if not sterilized.

The contract is automatically generated through the information system, signed by both the Treasury Service Committee under the Ministry of Economy and Finance of the Republic of Uzbekistan and the winning commercial bank, and becomes effective after registration with the Treasury Service Committee. Importantly, contracts may also be concluded in electronic form using the electronic digital signature (EDS) of an authorized person, with the authenticity of the signature verified through the system.

Temporarily idle funds are kept in deposit accounts of commercial banks until the agreed maturity and must be returned within the period stipulated by the deposit agreement. In addition, state targeted funds, extra-budgetary funds, and budgetary organizations are permitted to place their temporarily idle funds either directly in commercial bank deposits or indirectly through orders submitted to the Treasury Service Committee.

The Treasury Service Committee determines the procedure for placing idle balances from the Single Treasury Account of the Ministry of Economy and Finance into commercial bank deposits, as well as the rules for allocating income derived from such placements. Overall, the placement of temporarily idle funds and the use of their income are carried out in accordance with an established scheme designed to ensure transparency and efficiency.

CONCLUSION AND RECOMMENDATIONS

In conclusion, the reforms undertaken in Uzbekistan's public finance management system envisage a gradual transition to treasury-based execution of the state budget and the modernization of operational mechanisms. This transition requires the adoption of advanced methods for collecting, processing, and transmitting data on budgetary flows, relying on modern information technologies and ensuring effective institutional coordination.

The placement of idle budgetary funds into commercial bank deposits represents an important financial mechanism. It enhances the efficiency of financial management, secures additional income for the state budget, and contributes to the stability of public finances. Moreover, it supports liquidity in the banking sector while simultaneously strengthening fiscal discipline and oversight.

To further improve this process, it is recommended that information about the placement of idle funds by budgetary organizations be made subject to public oversight. Such transparency would help ensure that the income generated from these deposits is utilized efficiently, under the supervision of society, thereby increasing trust in fiscal governance and reinforcing accountability.

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