

**ADJUSTMENT OF THE PRICING MECHANISM
AND TENDENCIES OF ITS DEVELOPMENT
IN UZBEKISTAN**

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JEL Classifications: H21, L11, P22

Key words: Profitability, taxing, competitiveness of production, price strategy

Abstract: The paper argues in favor of pricing adjustment to support competitiveness of national economy in Uzbekistan. The special attention was given to the factors of decreasing production costs in condition of global financial crisis environment. Measures in tax legislation unification, optimizing tax rates and structure are considered important to support competitiveness of national production.

ISSN: 1804-0527 (online) 1804-0519 (print)

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The consequences of the global financial-economic crisis, that broke out in 2008, have an impact on stability of the Uzbekistan's economic development, as well as on other countries of the world. A number of measures were adopted by national anti crisis management program, directed to support the companies of basic industries of economy, ensure their performance stability and exports growing (Program, 2008). Among them the measures aimed to increase of international price competitiveness are particularly important for domestic producers. The Government approved measures to decrease production cost not less than 20% at the expense of the rationalization of the technological process, reduction material and power intensity of production. First of all, these measures target the enterprises of metallurgical, chemical and cotton-processing industries.

The mechanism of market-based price composition and price regulation in different industries in Uzbekistan is build up on unified methodological base. The legal bases of governmental regulation of pricing mechanism were already created at the first stage of transition to market economy. For composition of price structure the following legislative acts are particularly essential: "Accounting Law"; "Regulations of costs structure and financial reporting for production and realization of products (works, services)".

The purpose of the latter document, commissioned in 1995 and currently in force with some changes, is to provide the unified defining of expenses included in the production cost price, to support data collection necessary for analytical work and managerial decisions at companies. Also, the regulations are helpful as informational tool for analysis and conducting of macroeconomic and industry-related policies.

The global financial-economic crisis showed again how it is important to know the cost price of production and maintain the optimal balance between costs, profits and the prices of realization. The analysis of cost production is of great importance both for regulatory structures and business entities. The parity of the production cost and the profit is, in our opinion, one of the main basic economic relations that characterize sustainability of enterprises' performance, functioning of industries and economy as a whole.

The policy package targeted on the lowering production cost includes actions of lowering direct and indirect costs, overhead expenses, and the mobilization of the internal financial resources. Particularly these measures are optimization of material and labor costs, increase of

workload or the conservation of idle capacities, the use of small firms services and homemade work in the labour intensive productions, the optimization of administrative expenditures, debt restructuring on tax payables, loans and obligations.

To contain increase of expenses the temporary procedure lower depreciation charges was introduced. Marginal limits were put on increase in 2009 for all energy prices and main utilities (no more than to 6-8% as per year).

The unification of tax legislation with the lowering of tax burden and tax exemptions for some kinds of activities will undoubtedly make production costs lower. The calculations show that the increase of some specific group costs (so-called "the expenses of periods" or prepaid expenses) have much influence on rise in production price. The prepaid expenses include administrative and marketing expenses, operational expenses, also some taxes and non-tax payments, charitable contributions. The share of prepaid expenses in production cost has increased during 2002-2007 from 18.8% to 25.1% at the manufacturing companies.¹ Though, the total production cost of finished goods during the same period decreased from 76% to 72%, financial expenses lowered from 5.1% to 2.8%. Therefore, in our opinion, in-depth study of the factors driving the prepaid expenses is necessary to find ways optimizing their dynamics.

Notwithstanding the given preferences, we can consider that production activity of enterprises remains exposed to significant risks on domestic market. Such environment is demonstrated by the evidence that only 6% of all registered business entities are involved into production activity.

The important factor influencing the dynamics of product cost of manufactured goods is the sharp fluctuations of international prices for raw and oil resources (petroleum, natural gas, copper, cotton, etc.). These global prices' fluctuations make suffer not only national exporters, but also the companies who import raw materials and equipment, completing and semi-manufactured goods. In such environment some exporters have to set export prices at level of product cost.

Modernization of national economy in conditions of global financial-economic crisis requires developing

¹ The evaluation using the data of the statistical digest «The Finances of Uzbekistan, 2008», Uzbekistan State Committee on Statistics.

flexible instruments in macroeconomic and industrial policies. These instruments should provide the overall stability of domestic production costs; enhance gradual increase of prices on raw materials, energy resources and human capital; prevent monopolistic increase of prices.

For the creation conditions supporting the growth of competitiveness of high-tech industrial enterprises the taxation of legal entities should be further improved. The regulations currently in force make corporate taxation quite complex. In the present tax conditions the enterprises, before computing taxable income, have to pay indirect taxes, and also taxes, dues and fees included into prepaid expenses. Thereafter some of the company's expenses are included to define the taxable corporate income and from this measure the profit tax, social tax and other tax deductions are calculated. So, in such sophisticated corporate taxation system enterprises consider risk as high and have less incentive for expanding activity.

In our opinion, the tax system should take into consideration priorities in state pricing strategy. The latter one should be directed on enhancing the increase of competitiveness of domestic industrial companies, sustaining value balance in inter-industrial exchange, motivating resource-saving, preserving environment sustainability. At the new step of the taxation reform the tasks for leveling competitive conditions and lowering the sphere of "shadow" economy need to be managed.

To achieve these tasks the tax burden must be shifted from high value added industries to industries producing raw materials and energy resources. Also, the tax privileges should not be used as instruments of price regulation. Sticking on effective tax standards provides more desirable impact on market prices through the competition, encourages the resource-saving and efficiently penalizes for resource squandering.

In overall, to increase competitiveness of national economy and overcome the aftermath of global financial crisis it is important to develop business environment contributing to expanding of high value added domestic products. In such environment business entities could produce high value added products at optimal cost size and structure. In this way a great deal of raw materials and energy resources will be saved for future use. The available productive potential will be used with maximum effectiveness and the economy will get tremendous shift toward the innovative development type.