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STATE FINANCE SYSTEM REFORMS AND THEIR PRIORITY DIRECTIONS

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ANNOTATION
This article highlights the reforms in the state finance system aimed at improving budget-tax policy, the budget system, public debt management, and financial control. The article discusses key financial priorities such as optimizing budget revenues and expenditures, reducing public debt, and enhancing the transparency of the state financial system.
KEYWORDS: *State Finance Reforms, Public Finance, State Budget, Public Debt, Budget-Tax Policy, Budget System, Financial Stability, Optimization.*

INTRODUCTION

Ensuring economic stability requires a well-functioning state finance system, which serves as the backbone of a country's economy. Proper management of financial resources facilitates sustainable economic growth, inflation control, and budget deficit reduction. Therefore, financial reforms are of great importance for strengthening national economies. In this context, countries must align their financial systems with international standards amid globalization. Changes in the global economy, particularly issues related to public debt, cooperation with international financial institutions, and improving the investment climate, are among the priority areas of reform.

Moreover, transparency and accountability in the state finance system enhance public and business confidence in the government. From this perspective, the open and efficient management of public financial resources is a key direction of reforms. Another crucial aspect is social and economic development, where public finance channels resources into sectors such as healthcare, education, infrastructure, and social protection. Thus, one of the primary objectives of financial reforms is to ensure the optimal allocation and utilization of financial resources.

Modernizing the state finance system, implementing digital technologies, and expanding electronic governance help improve the efficiency of financial services. This topic is crucial for stabilizing the economy, enhancing public welfare, and increasing government efficiency through financial system reforms. Hence, systematic and consistent implementation of financial reforms remains a priority in government policy.

LITERATURE REVIEW

In reviewing the literature for this study, theoretical, practical, and empirical sources from local and international researchers were analyzed. Additionally, relevant domestic regulatory documents were examined.

Professor T.S. Malikov, in his textbook "Budget-Tax Policy" [1], discusses budget-tax policy as follows:
"Budget policy is the most important component of budget-tax policy and financial policy, possessing a primary character. In the simplest (primitive) form, this distinction is signified by the preference for 'budget-tax policy over tax-budget policy.

All the pressing issues within budget policy ultimately relate to the budget deficit. The deficit level alone allows for a macroeconomic assessment of budget policy".

According to the same textbook, "The level of budget deficit plays a crucial role in determining the financial independence of any state. It must remain within certain limits; exceeding commonly accepted norms poses serious risks to national sovereignty. Therefore, in the current environment, reducing the budget deficit is central to budget policy and, in some cases, a matter of economic survival".
Professor A.V. Vakhabov, in his work "State Budget", elaborates on budget-tax policy, defining its core aspects:

"In general and simple terms, budget-tax policy involves the rational formation of budget revenues and the efficient allocation of expenditures. Essentially, budget policy encompasses tax policy as well. However, in practice, revenue-related policies are usually referred to as tax policy, whereas expenditure-related policies fall under budget policy. In this context, budget-tax policy can be conditionally recognized as a combination of interrelated yet relatively independent budget and tax policies".

Foreign economist S. Breg, in "Financial Director's Handbook," illustrates budget-tax policy with an analogy: "If expressed figuratively, budget policy should soar like a swan, while tax policy should not diverge towards either the deep sea or dry land like a crab. Otherwise, the system will remain stagnant, and the effectiveness of budget-tax policy will be negligible".

When budget-tax policy is correctly implemented, a single unit of expenditure can yield a tenfold return. Conversely, inefficient budget-tax policy can lead to the loss of substantial financial resources, dissipating like water in the sand.

RESEARCH METHODOLOGY

This research utilizes widely accepted scientific research methodologies. The study employs deductive and inductive methods to analyze general and specific aspects of the topic. The abstract-logical thinking approach is applied for systematic analysis. Methods such as observation, generalization, classification, comparison, synthesis, and analysis are extensively used.

ANALYSIS AND RESULTS

Uzbekistan declared its state sovereignty and embarked on the path of economic stabilization, aiming to build an independent, powerful, and multi-faceted democratic state. The country introduced structural economic reforms and market mechanisms, resulting in the effective operation of financial institutions.

The country's state budget has increasingly relied on domestic revenues, surpassing the previous allocations from the former Soviet Union's state budget. Strict financial constraints ensured that budget revenues, expenditures, and deficits aligned with GDP dynamics. Social sector expenditure growth corresponded with overall budget expenditure growth, highlighting the impact of market reforms on the national budget.

Uzbekistan's state budget policy has undergone the following developmental stages:

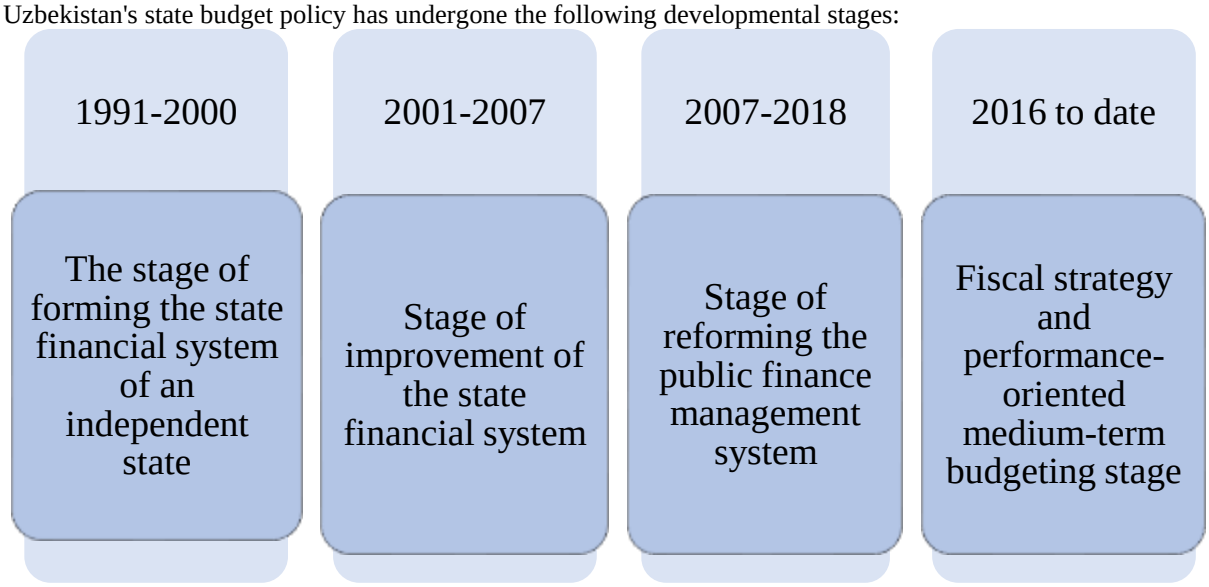


Figure 1. Stages of Uzbekistan's Budget Policy [2]

To achieve the main goal of the adoption of the Decree of the President of the Republic of Uzbekistan No. UP-4947 of February 7, 2017, "On the Strategy of Actions for the Further Development of the Republic of Uzbekistan"[3], the definition of five priority areas for the development of the Republic of Uzbekistan in the Strategy has historical significance.

Therefore, in order to bring the public finance management system to a new level and further strengthen budget discipline, increase the transparency of the tax and budget system, increase the efficiency and effectiveness of using funds from the State Budget of the Republic of Uzbekistan, and ensure the implementation of modern methods of planning the State Budget for the medium term, the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 506 of August 24, 2020 "On Approving the Strategy for Improving the Public Finance Management System of the Republic of Uzbekistan for 2020-2024"[4] was adopted.

In ensuring macroeconomic stability in Uzbekistan, the development of entrepreneurship is one of the main factors of economic growth and plays an important role in ensuring the stability of the state budget. The events will develop economic activity by creating new jobs, researching tax revenues, and introducing innovations. At the same time, the state budget will be financed by taxes and revenues received from entrepreneurship. Based on the Law on the State Budget of the Republic of Uzbekistan for 2025[5], financial reforms to be implemented for the development of entrepreneurship, in turn, will be considered an important means of ensuring budget stability.

In particular, one of the important decisions in budgetary and tax policy was the meeting of the President with entrepreneurs on December 27, 2024. They openly expressed their views on the sphere of events and expressed their proposals. It is gratifying that this is not primarily a privilege, but offers equal conditions for everyone. As a result of a thorough study of the issues raised, on December 27, the Decree of the President of the Republic of Uzbekistan No. UP-229 "On Further Measures to Ensure Equal Conditions for Entrepreneurship and a Fair Competitive Environment" was signed.[6]

This document can serve as a basis for improving the competitive environment, protecting the legitimate interests of entrepreneurs and creating favorable conditions for their work. This work, aimed at strengthening mutual relations between the state and the private sector through dialogue with entrepreneurs, will serve to further improve the business environment in the future.

Specifically, on December 24, 2024, the adoption of the Law of the Republic of Uzbekistan "On the State Budget of the Republic of Uzbekistan for 2025" (No. LRU-1011)[7], "Basic Directions for the Introduction of Changes in Tax and Budget Policy for 2025" (No. LRU-1014)[8], and the adoption of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On Amendments and Additions to the Regulations on Tax and Budget Policy for 2025" (No. LRU-1013)[9], as well as the adoption of the

This law has made changes and additions to 37 articles of the Tax Code, as well as to 5 articles of the Budget Code.

With this law, GDP is expected to grow by 6%, while inflation is expected to decrease to 7−8%. The limit of the consolidated budget deficit was reduced from 4% to 3% of GDP (49.3 trillion soums), and the limit of external debt was increased to $5.5 billion.

In ensuring macroeconomic stability in Uzbekistan, strengthening the institutional potential for effective public finance management is of paramount importance. Uzbekistan has made significant progress in building and improving the management system of independent financial institutions. The continuation of efforts aimed at exploring institutional capacity and transparency is necessary to ensure the efficiency of public finances.

Public debt is an obligation arising from government borrowing to cover the budget deficit and for specific purposes, and this is money that a state borrows from citizens, commercial banks and companies, international institutions and is paid back at a certain time with interest.

In particular, the adoption of the Law of the Republic of Uzbekistan "On State Debt" No. LRU-836 of April 24, 2023 [10] played a significant role in regulating relations related to public debt and its management.

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Table 2
Total parameters of the consolidated budget of the Republic of Uzbekistan for 2025 and budgetary targets for 2026-2027 [11] trillion soums

№	Indicators	Forecast for 2025	Targets	
			2026	2027
1	Gross domestic product, trillion soums	1 630	1 866	2 125
2	Gross domestic product growth rate, in percent	6,0	6,1	6,3
3	Consumer price index, compared to December of the previous year, in percent	7-8	5-6	5
4	The growth rate of industrial products, in percent	6,1	6,2	6,1
5	Growth rates of production in rural, forestry and fishing farms, in percent	4,1	4,2	4,3
6	Growth rate of market services, in percent	14,5	15,1	15,0
7	Growth rate of construction work, in percent	14,2	10,2	7,3

Uzbekistan's external debt, including public and private debt, reached $60.2 billion by the end of 9 months. Since the beginning of the year, this figure has increased by $7.2 billion.

As of September 30, 2024, Uzbekistan's external debt amounted to $60.2 billion. This is due to the Central Bank's data on the balance of payments, international investment position, and the country's external debt over nine months [12].

The state external debt amounted to almost $32.5 billion, while the corporate (private) external debt amounted to $27.7 billion. Since the beginning of the year, the external debt has increased by $7.2 billion. At the end of 2023, the indicator amounted to $53 billion, including $29.7 billion in public debt and $23.3 billion in private debt. Over the past two years, private external debt has become a key component contributing to the accelerated growth of total external debt.

As the S&P rating agency noted in its report at the end of November,[13] in recent years, Uzbekistan has seen an increase in investments in the energy sector, mining capacity building projects, and other infrastructure projects, as well as social spending. This led to an acceleration in the growth rate of net public debt (including state-guaranteed debt) (an average of 6.3% per year in relation to GDP) and a rapid increase in the volume of public debt and total external debt in 2020-2023.

Uzbekistan's public debt is projected to reach $45.1 billion by the end of 2025. This is stated in the "Budget for Citizens" report of the Ministry of Economy and Finance [14].

CONCLUSION AND RECOMMENDATIONS

This research examined the theoretical foundations of the state finance system, determining its economic role, functions, and objectives. The study identified key principles necessary for ensuring the efficiency of public finance management.

State finance reforms are critical for economic stability, effective financial resource management, and improved public services. The reforms focus on budget system enhancements, fair and efficient tax collection, public debt management, and financial oversight.

These efforts contribute to fiscal transparency, economic growth, and public welfare. The following recommendations aim to enhance the effectiveness of ongoing financial reforms:

- Improving the tax system by increasing tax collection efficiency, simplifying tax regulations, and reducing corruption.
- Optimizing the budget system by improving revenue and expenditure management and prioritizing essential infrastructure and social projects.
- Enhancing public debt management by implementing strategies to limit debt growth and ensure long-term fiscal stability.
- Increasing financial transparency to provide clear insights into government financial operations for the public.

- Expanding digital technologies in public finance management to improve efficiency through electronic financial systems.

The above conclusions and recommendations are crucial for ensuring the long-term economic stability of financial reforms.

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