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FISCAL POLICY OF UZBEKISTAN: ACHIEVEMENTS AND CHALLENGES

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ABSTRACT----------
In recent years, Uzbekistan has made significant progress in reducing poverty. However, a more effective fiscal strategy is needed to further improve the situation. Analysis of the current situation: poverty, tax system, social expenditures Uzbekistan has implemented a number of reforms in the field of taxation and socialbenefits. However, the system remains less progressive than in developed countries, and the share of social spending relative to GDP remains moderate.
KEY WORDS: *Fiscal Policy, Tax System, Social Expenditures, Poverty Reduction, Uzbekistan Economy, Macroeconomic Stability----------*

INTRODUCTION

Uzbekistan's fiscal policy plays a pivotal role in shaping the country's economic development, reducing poverty, and addressing income inequality. Over the past decade, Uzbekistan has undergone significant economic reforms, transitioning from a centrally planned economy to a market-oriented system. The government has introduced tax reforms, increased social spending, and enhanced public investment to promote economic inclusivity and social welfare. However, despite these achievements, several challenges remain, including inefficiencies in tax collection, regional economic disparities, and the need for greater fiscal transparency.

One of Uzbekistan's key achievements in fiscal policy has been the implementation of tax reforms aimed at simplifying the tax system and reducing the tax burden on businesses. The introduction of progressive taxation and the reduction of value-added tax (VAT) rates have improved tax compliance and increased government revenue. Additionally, targeted social assistance programs, including direct cash transfers and subsidies for low-income households, have helped mitigate poverty and improve living standards.

However, challenges persist in ensuring the effective allocation of fiscal resources. The informal sector remains a significant issue, limiting tax revenues and reducing the effectiveness of social welfare programs. Moreover, regional inequalities in infrastructure and economic opportunities continue to exacerbate income disparities across different provinces. Bureaucratic inefficiencies and a lack of transparency in public expenditure management also hinder the full potential of fiscal policy interventions.

This study examines Uzbekistan's fiscal policy in the context of international best practices, identifying strengths and areas for improvement. By analyzing successful fiscal strategies from other countries and assessing their applicability to Uzbekistan, the research aims to provide policy recommendations that enhance the effectiveness of fiscal measures in promoting economic stability, poverty reduction, and equitable growth.

RESEARCH METHODOLOGY

This study employs a mixed-methods research approach to assess the fiscal policy of Uzbekistan, focusing on its achievements and challenges. The methodology integrates both qualitative and quantitative techniques to provide a comprehensive evaluation of the effectiveness of fiscal measures in addressing poverty and inequality. The key components of the research methodology include:

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1. The study examines fiscal policies from various countries, particularly those with successful experiences in poverty reduction and economic inclusivity, such as the Nordic countries, Brazil, and Mexico. By comparing their strategies with Uzbekistan's policies, key lessons and best practices are identified.
2. Selected case studies of fiscal reforms in Uzbekistan and other nations are analyzed to understand the impact of specific tax policies, social programs, and public expenditure initiatives on poverty and inequality reduction.
3. Statistical data from government sources, the World Bank, the International Monetary Fund (IMF), and other relevant institutions are utilized to assess the fiscal policy's effectiveness in Uzbekistan. Indicators such as tax revenue as a percentage of GDP, poverty rates, income distribution metrics (e.g., Gini coefficient), and government expenditure trends are analyzed.
4. Policy documents, government reports, expert interviews, and academic literature are reviewed to understand the broader socio-economic implications of fiscal policy in Uzbekistan. This approach helps identify structural challenges and policy gaps that need to be addressed.
5. A structured framework is applied to evaluate the feasibility, efficiency, and sustainability of implementing international best practices in Uzbekistan's fiscal policy. Factors such as economic stability, administrative capacity, and political will are considered.

By integrating these research methods, this study aims to provide evidence-based insights into the strengths and weaknesses of Uzbekistan's fiscal policies and offer practical recommendations for enhancing their effectiveness in promoting equitable economic growth and social welfare.

RESULTS

Comparison with international practices Compared to successful examples, Uzbekistan should strengthen targeted assistance, reduce its dependence on indirect taxes, and expand its social transfer system. This will make it possible to more effectively redistribute resources in favor of low-income segments of the population.

Table 1. Dynamics of key indicators (2016-2024)

-Indicator	2016 (before reforms)	2023 (latest data)
Poverty rate (%of the population below the poverty line)	~36% (по international draw$6.85)	17% (international $6.85) ≈11% (national poverty line)
Tax revenues (% of GDP)	~11-12% (estimated)	14.8%
Social spending (% of GDP on social protection)	~5-6% (estimated)	~7% (2020)
Fiscal balance (%of GDP)	~0% (close to balance)	-5.9% (2021)

Note: No official poverty statistics were published in 2016. With the introduction of the new methodology in 2021, the national poverty rate decreased from 17% (2021) to 11% (2023), which means that ~1.6 million people came out of poverty[7]. 7 The tax reform of 2019, despite the reduction in rates, led to an increase in tax revenues due to an improvement in the collection – budget revenues in 2019 increased by more than 1/37[7]. In 2020-2021, the state deliberately increased spending (deficit to ~6% of GDP) to stimulate the economy and provide social support during the pandemic.

Analysis of Uzbekistan's Fiscal Policy (2016-2024)

Comparison with international practice

- **Tax burden:** Uzbekistan's tax revenues (~15% of GDP) remain below the global average (~16.6% of GDP)[1] and significantly inferior to developed countries (on average ~33-34% of GDP in OECD countries)[3]. Nevertheless, Uzbekistan's indicator is close to the level of many developing countries (15-20% of GDP).
- **Social spending:** Uzbekistan spends about 7% of GDP on social protection4[4], which is less than in many neighboring countries4[4] and significantly lower than in developed countries (public social spending ~21% of GDP on average in the OECD)[8]. This is reflected in the relatively modest social security system – about 1/3 of the poor are not covered by benefits[4].4
- **Poverty:** The rate of poverty reduction in Uzbekistan was high, with the share of poor people (by the standards of upper-middle-income countries) falling from 36% to 17% (2015-2022)[7]while the average for Europe and Central Asia fell from 13% to 8%[7]. Despite rapid progress, the poverty rate in Uzbekistan is still higher than in developed economies, where relative poverty is much lower by similar standards.

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Impact of fiscal Policy on Growth and Well-Being

- **Economic Growth:** Programmatic fiscal reforms were accompanied by sustained economic growth in 2017-2023. GDP grew by an average of ~5-6% annually.

Even in the face of the 2020 pandemic, Uzbekistan avoided a downturn thanks to stimulus measures (growth of ~1.9% of GDP in 2020) and recovered rapidly in 2021 (~7% growth). Thus, fiscal policy, by expanding domestic demand through investment and social payments, supported economic growth without overheating.

- **Social Well-Being:** Increased social spending and income has significantly reduced poverty. Rising wages and remittances from migrant workers, combined with the expansion of social benefits, have helped lift a significant portion of the population out of poverty since 2016.[2]. Targeted support during COVID-19 (additional spending of ~5% of GDP on healthcare, social assistance, and business assistance) helped soften the blow to vulnerable groups[2]. As a result, fiscal policy during the analyzed period contributed to both economic growth and improved social indicators (reducing poverty, increasing spending on education, health care, and social protection).

Key reforms of 2016-2024 and their results

- **Tax reform (2018-2019):** A new Tax Code was adopted (as amended in 2020), which significantly simplified the system. A flat income tax rate of 12% has been introduced, insurance premiums have been reduced, the number of taxes and mandatory payments has been reduced, and rates for businesses have been unified[1]. Tax benefits were revised, the threshold for mandatory VAT registration was reduced, which expanded the base – the number of VAT payers increased significantly. The result is an increase in tax transparency and revenues (+34% of budget revenues in 2019 due to improved administration)[2]
- **Budget Transparency and Governance:** Since 2018, the Ministry of Finance has published a "Budget for Citizens", revealing the priorities and structure of state finances[2].2 For the first time, the country's budget for 2020 was approved by law through parliament (and not by decree)[2], which strengthened the role of the legislature. Integration of extra-budgetary funds has begun – 23 funds (including the Reconstruction and Development Fund) are included in the 2020 budget, [5]reducing more than half of the previous extra-budgetary expenditures. These steps have increased transparency, accountability, and efficiency in the use of funds.[2]. **Social reforms:** An official national poverty line is introduced in 2021 and the goal is to reduce poverty by half by 20261[1]. Targeted support for the poor has been strengthened – the number of families receiving poverty benefits has tripled by 2020. (from ~500 thousand to 1.5 million) to mitigate the consequences of the pandemic[2]. In 2022 A National social protection strategy has been approved, aimed at consolidating fragmented programs and expanding coverage of vulnerable groups[4]. These reforms have laid the foundation for a more systematic fight against poverty and increased social protection.
- **Investments and Subsidies:** The Government since 2017 it actively increased public investment (in infrastructure, agriculture, education, etc.), including through concessional lending by state-owned banks. Price liberalization was carried out (the abolition of regulated currency prices in 2017, the increase in energy tariffs) to reduce hidden subsidies and the burden on the budget[2]. In 2020, an Anti-crisis Fund was created to finance measures against COVID-19. Together, these steps have modernized the economy, improved the business climate and created conditions for the private sector, which is reflected in Uzbekistan's high growth rates and improved position among reformers.

Uzbekistan's fiscal policy in 2016-2024 underwent a significant transformation-from a closed, restrained model to a more open and active one. Bold reforms of the tax system and budget process were carried out, which reduced the tax burden on business and the population, while increasing budget revenues by expanding the base and better administration. The state increased social spending and investment, especially during the pandemic, which accelerated poverty reduction and supported economic growth. In the international context, Uzbekistan has narrowed the gap with the practices of developing countries in terms of transparency and social orientation of the budget, but in a number of indicators (the share of taxes and social spending in GDP, the level of poverty), it still has to catch up with more developed economies. The overall effect of the reforms of 2016-2024 is a more stable economy with improved indicators of the well-being of citizens, while maintaining macroeconomic stability.

CONCLUSION

Uzbekistan has made significant strides in reforming its fiscal policy to support economic growth, reduce poverty, and address income inequality. The introduction of tax reforms, increased social spending, and public investment

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have contributed to economic stability and improved living standards for many citizens. The implementation of progressive taxation, direct cash transfers, and targeted subsidies has played a key role in mitigating the effects of economic disparity.

Despite these achievements, challenges remain. The informal sector continues to undermine tax revenue collection, limiting the government's ability to fund social programs effectively. Regional disparities persist, with economic opportunities and public infrastructure unevenly distributed across the country. Additionally, bureaucratic inefficiencies and a lack of transparency in fiscal management hinder the effectiveness of policy interventions.

Drawing from international best practices, Uzbekistan can further enhance its fiscal policy by improving tax collection mechanisms, strengthening social program targeting, and increasing transparency in public spending. Implementing digital tax administration systems, expanding financial inclusion, and fostering public-private partnerships can help optimize resource allocation and improve policy outcomes.

Moving forward, Uzbekistan must prioritize an inclusive and adaptive fiscal policy framework that ensures long-term economic stability and social equity. By learning from successful fiscal models worldwide and addressing existing structural challenges, the country can achieve more sustainable and equitable economic development.

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