



## **POSSIBILITIES OF ENSURING MACROECONOMIC STABILITY THROUGH IMPLEMENTING AN EFFECTIVE BUDGETARY-TAX POLICY IN UZBEKISTAN**

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### **Abstract**

This thesis discusses the possibilities of conducting an effective budget and tax policy to ensure macroeconomic stability in Uzbekistan, which is undergoing a process of economic transformation. Budget deficit and increasing external debt are macroeconomic risks and proposals and recommendations are developed to ensure macroeconomic stability through the implementation of the correct fiscal policy in this process.

**Keywords:** Consolidated budget deficit, external debt, macroeconomic stability, budget and tax policy.

### **Introduction**

From a macroeconomic point of view, a stable budget and fiscal policy in developing countries is characterized by a smaller budget deficit and less external debt. A small budget deficit is a guarantee for preventing various economic crises arising from the risk of the country's ability to repay its debts. Usually, budget and fiscal policy plays a significant role in reducing fluctuations in income and unemployment rates in the short term, as well as in stabilizing a stagnant economy. However, it is not out of the question that countries can also undermine macroeconomic stability through stimulus budget and fiscal policies in these processes. According to IMF data, the consolidated budget deficit in Uzbekistan amounted to 2.6 percent in 2024. On December 24, 2024, the Law "On the State Budget of the Republic of Uzbekistan for 2025" was adopted. According to it,



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GDP growth is expected to be 6% in 2025, the consolidated budget deficit is 3%, and public debt is expected to be.

Main part. From a macroeconomic perspective, studies on developing countries show that a rational fiscal policy — that is, maintaining a low budget deficit and public debt at a stable level — is one of the important factors of economic growth. In particular, according to studies by the International Monetary Fund (IMF) and the World Bank, economic growth rates are on average 1.5–2 times higher in countries where the budget deficit does not exceed 3% of GDP.

A small budget deficit strengthens the state's ability to fulfill its debt obligations and reduces the likelihood of economic crises. For example, in 2020–2023, the inflation rate in countries with high debt burdens ( $\text{debt/GDP} > 70\%$ ) was on average around 9–12%, while in countries with low debt burdens ( $\text{debt/GDP} < 40\%$ ), this indicator was 4–6%.

At the same time, in countries with maintained budgetary discipline, the allocation of public spending to social sectors (education, healthcare) is high. This contributes to the development of human capital, poverty reduction, and long-term economic growth.

Economists traditionally emphasize that fiscal policy plays an important role in smoothing fluctuations in output and employment by regulating aggregate demand in the short term. For example, during the global financial crisis of 2008–2009, fiscal stimulus packages in the United States and European countries amounted to 2–5% of GDP and significantly softened the economic downturn.

In this context, countercyclical fiscal policy — stimulating the economy by increasing government spending and reducing the tax burden during a recession — is an effective tool. However, practice shows that such a policy may not produce the expected results if public debt is high and unsustainable. For example, in some countries in Latin America, fiscal expansion due to high debt burdens has led to inflation and currency depreciation.

The decrease in the consolidated state budget deficit in Uzbekistan in 2024 is assessed as a positive trend. The International Monetary Fund recommends that Uzbekistan maintain the budget deficit at 3% of GDP in the medium term. At the same time, limiting the limit on external borrowing for 2025 to 5.5 billion US dollars is also important in ensuring macroeconomic stability.



The volatility of gold prices is an important external factor for the Uzbek economy. For example, in 2022–2024, the price of gold on the world market fluctuated between 1,700–2,400 dollars per ounce. This, in turn, may affect state revenues and budget expenditures, increasing inflationary pressure or, conversely, forcing them to reduce spending.

Therefore, it is important to introduce mechanisms in state policy to stabilize budget expenditures independently of raw material prices (for example, stabilization funds).

Uzbekistan's fiscal policy for 2025–2027 envisages stimulating domestic demand by keeping key tax rates unchanged and increasing household incomes at a rate no lower than inflation. This will support economic growth and ensure social stability.

At the same time, Uzbekistan's accession to the World Trade Organization (WTO) requires harmonizing budget and tax policies with international standards. This will strengthen market mechanisms, increase competition, and ensure price stability.

A significant part of Uzbekistan's external debt in 2023–2024 is directed to the fuel and energy sector. However, low efficiency is observed in this sector and the return on investment will take a long time. Therefore, increasing the efficiency of using borrowed funds is an urgent issue.

A comparative table of Uzbekistan and other countries aimed at conducting an effective budget and tax policy is presented in the following table for the year 2024 (see Table 1)

**Table 1**

Indicators	Uzbekistan	Kazakhstan	Turkey	Developed countries Average
Budget deficit (% GDP)	~3,5%	~2,8%	~5,2%	~4–6%
Public debt (% GDP)	~38%	~25%	~52%	~90%
Inflation rate	~9–10%	~8%	~60%	~3–5%
GDP growth	~5,5–6%	~4,5%	~4%	~1,5–2,5%
External debt growthi	high	average	high	stable



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The table shows that the effective implementation of the state's budget and tax policy is one of the main factors ensuring the country's macroeconomic stability. In particular, the budget deficit, public debt, inflation and economic growth indicators are closely interrelated.

First of all, if we pay attention to the budget deficit, in Uzbekistan this indicator is around 3.5%, which is close to the 3% norm recommended by the International Monetary Fund. In Kazakhstan, this indicator is lower, 2.8%, which means that fiscal discipline is relatively stronger there. Based on the fact that the budget deficit in Turkey is high, 5.2%, it can be said that the budget deficit in this country is considered one of the factors causing the formation of high inflation.

Therefore, controlling the budget deficit in countries is the main task of fiscal policy, and since its high level leads to inflationary pressure and macroeconomic instability, imbalances in the state economy can be mitigated by conducting a countercyclical and balanced fiscal policy in the country. The second important indicator is public debt, in Uzbekistan this indicator is 38% of GDP, which is considered a moderately safe level by international standards. In Kazakhstan, this indicator is 25%, which indicates that it is at a low level. This indicates that they have high budget stability. In Turkey, public debt exceeds 50%, which can be seen as putting pressure on inflation and the stability of the national currency.

Based on this, it can be said that the effectiveness of public debt management is one of the important areas of budget and tax policy, and an increase in debt may lead to an increase in the tax burden or a reduction in budget expenditures in the future. This will have a negative impact on social sectors.

Inflation indicators also reflect the effectiveness of fiscal policy. As can be seen from the table, inflation in Turkey is 60%, which is very high. This indicates insufficient budgetary discipline and a lack of coordination between monetary and fiscal policies. Inflation in Uzbekistan and Kazakhstan is relatively stable at around 8–10%, and as a result, it can be seen that macroeconomic management in these countries is relatively effective.

At the same time, the GDP growth rate in Uzbekistan is above 5.5–6%, which is considered a positive result of fiscal stimulus policies. However, for this growth to be sustainable, it is important to control the budget deficit and public debt.



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In addition, the table also shows external debt indicators, and it can be seen that this indicator is high in Uzbekistan. On the one hand, this situation provides an opportunity to finance investments, but on the other hand, it increases macroeconomic risks. Therefore, it is important to effectively and purposefully direct borrowed funds within the framework of budgetary and tax policies and ensure their repayment.

### **Conclusions and suggestions**

Based on the research conducted, it was determined that there is a need to further improve the budget and tax policy in Uzbekistan to ensure macroeconomic stability. In particular, first of all, strict control over the budget deficit is of great importance. For this purpose, it is advisable to introduce fiscal rules to limit the consolidated budget deficit to no more than 3 percent of GDP in the medium term and to review public spending based on the principle of efficiency. This will ensure the stability of public finances and limit inflationary pressures.

At the same time, it is necessary to further improve the public debt management system. In particular, when attracting new external debts, it is necessary to thoroughly analyze their repayment capacity, direct borrowed funds to projects with high economic efficiency, and set a safe limit for public debt to GDP. This will reduce the risk of increasing the debt burden and achieve long-term financial stability.

Increasing fiscal transparency and accountability is also an important direction. In particular, it is necessary to regularly provide open reports to the public on the use of external debt funds, their economic and social effectiveness, as well as expand the practice of conducting independent audits of state investment projects. This will increase confidence in public finance management and reduce the risk of corruption.

Effective use of countercyclical fiscal policy to smooth economic cycles is also an urgent task. In periods of economic downturn, it is possible to stimulate aggregate demand by increasing state spending and reducing the tax burden, and in periods of economic growth, on the contrary, to ensure economic stability by forming a budget surplus and replenishing reserve funds.



It is also important to expand the tax base and increase state revenues. In this regard, it is advisable to digitize tax administration, reduce the share of the shadow economy, review ineffective tax incentives, and support small and medium-sized businesses to ensure stable tax revenues.

Reducing the dependence of the country's economy on raw materials is also a priority task. In particular, given the negative impact of gold price volatility on budget stability, it is necessary to create a financial “buffer” against external economic shocks by diversifying budget revenues and forming stabilization funds. In addition, it is important to bring budget and tax policy into line with international standards as part of Uzbekistan’s WTO accession process. This process will serve to review state subsidies and tax incentives, improve the competitive environment, and increase the efficiency of the economy.

Finally, budget and tax policy should also serve to ensure social stability. In this regard, long-term sustainable economic growth can be achieved by increasing population incomes at a rate not lower than the inflation rate, improving the targeted social assistance system, and increasing investment in human capital.

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