



## **DIRECTIONS FOR IMPROVEMENT OF STATE FISCAL (BUDGETARY-TAX) POLICY**

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### **Abstract**

At the present stage of innovative development of the economy, it is necessary to develop new directions of regulation by the state in order to achieve sustainable development of the economy and solve emerging problems. Effective implementation of state fiscal (budget and tax) policy aimed at achieving economic development and increasing economic activity is an urgent problem that requires study. Because the global pandemic observed in recent years and the imbalances and serious complications caused by it require us to draw conclusions. State fiscal (budget and tax) policy is aimed at increasing economic activity and eliminating unfavorable situations in the economy through the rational use of financial resources. The article presents proposals and conclusions aimed at increasing economic growth, investment and innovation activity, employment of the population through the rational use of economic levers of the state fiscal (budget and tax) policy.

**Keywords:** State fiscal policy, budget and tax policy, employment, finance, state budget, state budget expenditures, state budget revenues, economic crisis, economic cycle, taxes, tax breaks.

### **Introduction**

At the new stage of reforms in Uzbekistan, special attention is paid to the issues of "ensuring the well-being of the population through sustainable economic growth" through the rational use of levers and instruments of state fiscal (budget and tax) policy aimed at economic activity, "doubling the size of the economy by 2030 and joining the "countries with an upper-middle income" in this area." However, despite the fact that over the past five years, as a result of the reforms carried out in the republic, a number of positive results have been achieved, the issue of improving the



fiscal (budget and tax) policy of the state to ensure sustainable growth rates remains one of the most pressing in connection with the growth of public debt and the state budget deficit, as well as the presence of imbalances in the sectors of the economy. For this reason, the setting of such tasks as “consistently reducing the tax burden, simplifying the tax system, improving tax administration as the most important conditions for rapid economic development and increasing the country’s investment attractiveness” [3] has put the issue of the effective use of the state’s fiscal (budget and tax) policy among the most pressing problems of our time.

It also projects stable global economic growth in 2025–26, despite geopolitical conflicts and trade issues in the global economy, climate change, and the debt problem among countries. However, global economic growth is projected to be 3.3 percent in 2025 and 2026, below the historical average growth rate of 3.7 percent during the 2000–2019 period. In particular, countries should ease monetary policy to achieve financial stability and fiscal sustainability, ensure consolidation to put public debt on a sustainable path independent of fiscal policy, and restore the necessary space for a more flexible response to the situation. For this reason, most countries in the world aimed at improving state fiscal (budget-tax) policy and economic activity in order to alleviate economic tensions and ensure financial stability. Particular attention is paid to improving financial mechanisms.

## **LITERATURE ANALYSIS**

The concept of “fiscal policy”, which came into use through the English version of the word, has been interpreted differently in domestic and foreign economic literature and historical sources and has often been referred to as “budget-tax”, “financial-tax”, “fiscal policy” and “treasury policy”[4]. According to another dictionary meaning “Fiscal” comes from the Latin word “fiscus”, meaning “treasury”. This, in turn, gives rise to the concept of “treasury policy”.

The representative of marginalism K. Wicksell (19th-20th centuries), considering the problems of budget and tax policy, believed that the main part of budget revenues should be formed not through indirect taxes, as A. Marshall emphasized, but through direct taxes on income and property. According to K. Wicksell, taxes are a method of continuous financing of state expenditures, and all decisions on taxes should be made in a comprehensive manner, taking into account costs and reflecting the benefits of the state [5]. Accordingly, K. Wicksell considers the problems of budget and tax



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policy from the point of view of the theory of marginal utility in its application to state welfare.

According to J. M. Keynes, the imperfection of the modern market economy cannot ensure sustainable economic development at the level of full employment, therefore it is necessary to regulate the economy by the state, one of the means of which is fiscal policy, which has a strong impact on economic growth, aimed at stimulating consumption and increasing employment.

A. Laffer understands fiscal policy as a state policy aimed at generating state budget revenues by establishing a dependence of the maximum volume of tax revenues on the optimal tax rates for the budget[6].

J. Stiglitz (20th–21st centuries) pays special attention to issues of fiscal policy, in particular the tax burden, capital taxation, optimal taxation, and tax reforms. It defines five principles of the tax system based on economic efficiency, administrative simplicity, political responsibility and flexibility, and fairness.

N.I. Turgenev paid attention to the problems of developing budgetary and tax policy, primarily pointing to the principle of establishing average taxes and equal distribution of taxes. He defines the sources and types of taxes, the procedure for collecting and paying taxes. N.I. Turgenev connects the effectiveness of budgetary and tax policy with the level of implementation of political freedoms and considers taxes to be a sign of the education of the state and the level of consciousness of the people. He contributed to the theory of budget balance, emphasizing that taxes should be collected in the amount necessary to meet the needs of the state, and state expenditure should correspond to income [7]. Analyzing the problems of fiscal policy, I.I. Yanzhul shows that the fiscal interests of the state should be satisfied taking into account the capabilities of taxpayers, without reducing their standard of living and taking into account the possibility of expanded reproduction. [8]

The textbook “Budget and Tax Policy”, published by a group of our domestic economists and scientists Zh.R. Zainalov, S.S. Aliyeva, N.E. Ernazarov and Sh.M. Latypova, states that “... the starting point or “base point” of budget and tax policy is financial policy, and the place of budget and tax policy in macroeconomic policy is determined by the framework of general financial policy.”

Our local economists T.S. Malikov and P.T. Dzhalilov admit that “...budgetary and tax policy, on the one hand, is connected with (rational) formation of budget revenues, and on the other hand, with (effective) spending of budget expenditures”, and



secondly, they put forward the idea that state fiscal policy is really aimed at economic activity, "...it becomes obvious that an annually balanced budget can essentially neutralize the effectiveness of state fiscal policy, which has an anti-cyclical, stabilization focus, or sharply reduce its level"[9].

## **ANALYSIS AND RESULTS**

In our country, the rational implementation of state fiscal policy in recent years has led to the development of a number of industries and sectors, and a rapid growth in entrepreneurial activity.

If we analyze the expenditures and revenues of the state budget of our republic for the period 2000-2024, the dynamics of expenditures and revenues of the state budget tended to change proportionally to the growth rate of real GDP. In 2000, state budget revenues amounted to 28.5% of GDP, and by 2024 they decreased to 24.0%. Similarly, state budget expenditures in 2000 amounted to 29.6 percent of GDP, and in 2024 this figure decreased to 20.8 percent.

If we analyze the growth rate of real GDP in our country, the lowest trend in 2000-2020 was observed in 2017-2018, when this figure was 5.2-5.3 percent. In 2020, this figure is guaranteed to grow by 1.6%, despite the economic pandemic. The highest growth rates of real GDP were observed in 2010-2015, the average growth rate was 8.0 percent. Accordingly, state budget revenues averaged 21.0% of GDP, and state budget expenditures - almost 21.0% of GDP.

In order to effectively analyze the current state of the state fiscal policy in the Republic of Uzbekistan for the period 2000-2024, we decided to conduct its study in three stages. Based on the data in Figure 3.1, the greatest trend in the first analyzed period of 2000-2010 was observed in 2000, that is, state budget expenditures amounted to 29.6% of GDP, state budget revenues - 28.5%, and the GDP growth rate was 3.8%, respectively. In 2005-2010, state budget expenditures and revenues averaged 21-22 percent, while the GDP growth rate increased by 7.0 and 8.5 percent. If you pay attention, then, apparently, such a maximum level of growth was achieved due to a decrease of approximately 6-7 percent in state budget revenues and expenditures compared to 2000.

The second period under analysis is 2015-2020. We believe that the reason for taking such a temporary step would be correct if the economic growth rate was studied before and after the period of the global pandemic. In the second period, government budget



expenditures tended to grow by 24-25 percent in 2018-2020, while government budget revenues were at 24 percent, and economic growth declined from 8 percent in 2015 to 1.6 percent by 2020. Of course, this trend was reflected in the emergence of mass cases of coronavirus infection recorded in China in 2019 and the quarantine situations observed in a number of countries in 2020.

The third analyzed period is 2021-2024, in 2021, state budget expenditures amounted to 25.6%, revenues - 22.4%, and GDP growth - 7.4%. By 2024, state budget expenditures will amount to 24%, revenues - 20.8%, and GDP growth - 6.5%. This requires a more in-depth analysis of the periods under consideration and a study of the impact of the state's fiscal (budget-tax) policy, which is one of the areas of the structural financial policy pursued by the state.

As already mentioned, one of the generally accepted methods of fiscal (budget-tax) policy is the analysis of the impact of budget and tax multipliers on economic growth. Tax reforms carried out in Uzbekistan are of crucial importance for increasing economic activity, attracting large-scale investments, ensuring compliance with tax legislation and achieving economic growth. Reforms aimed at simplifying procedures in the tax system, reducing tax rates, implementing measures to improve tax administration have created favorable conditions for the development of small businesses and private entrepreneurship, as well as for the overall economic development of the country.

**Table 1 Analysis of the gross domestic product of the Republic of Uzbekistan by net taxes on products in 2017-2022, in billion soums**

| Indicators                                        | 2018.   | 2019.    | 2020.    | 2021.    | 2022.    | 2023.   | 2024.   |
|---------------------------------------------------|---------|----------|----------|----------|----------|---------|---------|
| Gross domestic product                            | 426641  | 532712.5 | 605514.9 | 738425.2 | 888341.7 | 1204485 | 1454574 |
| Net taxes on products                             | 45575.8 | 45262.7  | 44361.5  | 51992.8  | 60287.5  | 58478.9 | 67963.9 |
| Ratio of net taxes on products to GDP, in percent | 10.6%   | 8.5%     | 7.3%     | 7.0%     | 6.8%     | 4.8%    | 4.6%    |

The positive impact of the tax reforms carried out in our country, which are an integral part of the state fiscal (budget and tax) policy, is also noted in international ratings and indices. In particular, the tax burden indicator in the Economic Freedom rating



increased from 90.7 points to 92.4 points. Of course, the improvement of this trend means a decrease in the overall tax burden on individuals and legal entities, which indicates more favorable conditions for economic activity for growth and development.

Table 1 shows that the gross domestic product in 2017 amounted to 317476.4 billion soums, in 2018 - 426641 billion soums, in 2019 - 532712.5 billion soums, in 2020 - 605514.9 billion soums, in 2021 - 738425.2 billion soums, in 2022 - 888341.7 billion soums, in 2023 - 1204485, in 2024 - 1454574. In particular, it is clear that the share of net taxes on products in GDP amounted to 10.9 percent in 2017, 10.6 percent in 2018, 8.5 percent in 2019, 7.3 percent in 2020, 7.2 percent in 2021, 6.8 percent in 2022, 4.8 percent in 2023 and 4.6 percent in 2024. The analysis shows that the gross domestic product (GDP) of Uzbekistan has been steadily growing from 2018 to 2024, but the ratio of net taxes on products to GDP has a decreasing trend. One of the main reasons for the stable growth of the gross domestic product (GDP) of Uzbekistan in 2018-2024 and the decreasing trend of the ratio of net taxes on products to GDP is the consistent implementation of tax reforms during this period. In particular, the activities of small businesses and private entrepreneurship contributed to the reduction of tax rates and simplification of taxation procedures. These reforms are aimed at stimulating investment, increasing economic activity and ensuring competitiveness. As a result, enterprises were able to expand their activities, which led to an increase in production volumes and growth in gross domestic product. Policies were also pursued to diversify the Uzbek economy and reduce its dependence on traditional sectors. This diversification has led to the development of new industries and sectors that contribute to high GDP growth. The expansion of non-taxable or low-tax sectors has affected the ratio of net taxes on products to GDP.

Although the tax reforms undertaken in Uzbekistan have yielded positive results, there are still challenges to be addressed. Further improvements in tax administration, including transparency and efficiency, are needed to build taxpayer confidence. In addition, the government should continue to monitor the impact of tax incentives to ensure their effectiveness and avoid revenue leakage. Going forward, Uzbekistan should consider adapting its tax policy to international best practices to attract more foreign investment and ensure sustainable economic growth. Continuous evaluation and refinement of tax reforms will be critical to optimize their impact on the economy and ensure fair distribution of benefits.



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## **Conclusions and Suggestions**

In conclusion, it can be said that the rational implementation of state fiscal (budget and tax) policy in Uzbekistan has led to stable economic growth in the country in recent years, creating the basis for solving a number of socially significant problems. Including:

1. This has resulted in sustained growth rates of gross domestic product in Uzbekistan following the global pandemic. By reducing the tax burden on businesses and individuals, stimulating investment and increasing consumption, the reforms have contributed to the expansion of the economy and increased overall output.
2. The implementation of a stimulating state fiscal (budget-tax) policy played a decisive role in attracting the flow of local and foreign investment. Also achieved was a reduction in corporate income tax rates, the introduction of investment incentives and simplification of tax administration. This contributed to an increase in the inflow of investment, stimulation of economic growth, ensuring innovative activity and the development of local industry.
3. The state fiscal (budget and tax) policy not only increased economic activity, but also had a positive impact on employment in connection with the state's economic problems. The creation of a favorable business environment allowed business entities to expand their activities and create new jobs, the tax burden was reduced and investment opportunities increased. In addition, the reforms carried out in Uzbekistan, including those aimed at improving the business environment and simplifying taxation, facilitated the activities of business entities and ensured their fulfillment of tax obligations.

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