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The Role of Fiscal Policy in Improving the Efficiency of Social Expenditures

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ABSTRACT.

This article explores the impact of fiscal policy on the socio-economic development of the Republic of Uzbekistan. The analysis examines the structure of state budget revenues and expenditures, their social orientation, and the potential for achieving fiscal stability through broadening the tax base, based on statistical data. Furthermore, the experience of developed countries is analyzed, and policy recommendations adapted to the context of Uzbekistan are proposed. The research findings aim to contribute to the further improvement of fiscal policy and enhance its social effectiveness.

Keywords: fiscal policy, fiscal stability, state budget, social expenditures, economic growth, taxation, macroeconomic balance.

Introduction.

The President of the Republic of Uzbekistan, Shavkat Mirziyoyev, emphasizes the importance of fiscal policy and highlights the need for its strict implementation. According to him, the state must fulfill its social obligations, ensure the payment of wages, pensions, benefits, and scholarships, finance major investment projects, and strengthen the country's defense capabilities. To accomplish these tasks, the Ministry of Finance must focus on strengthening the sources of state budget revenues and supporting the priority areas of the economy through taxation. In the process of reforming public finance, the formation and efficient use of budgetary resources play a central role. At the same time, it is essential to prevent budget deficits, use funds rationally, and strictly observe budgetary discipline. Strengthening financial oversight and establishing an effective control system are also crucial steps in this process, as they enhance the role of the state budget in the socio-economic development of the country. Introducing a system of proper management and efficient use of budget funds is one of the key conditions for ensuring financial stability.

Literature review.

According to Presidential Decree No. 60 of the Republic of Uzbekistan, effective measures have been implemented in the process of reforming the national economy. These include the liberalization of foreign trade, tax, and fiscal policy; support for entrepreneurial activity and the protection of private property rights; the development of deep processing of agricultural products; and the consistent development of regions.

According to R. Yusupov (2024), "In modern economic conditions, the effective formation and management of centralized financial resources by the state play an important role in ensuring the stable development of the national economy. The state budget is one of the main financial mechanisms for implementing economic development strategies, attracting investment, and supporting economic growth. It functions as a centralized financial fund in the distribution of GDP and national income."

From the conclusions of O. Nabiyev (2024): "Local budget revenues play a vital role in the development of the economy and serve as one of the factors driving regional economic growth. These revenues form regional financial resources and act as a catalyst for supporting local economic activity."

"The impact of indirect taxes on budget revenues has long been a central focus of economists and financial researchers. In Uzbekistan as well, scientific research in this field has mainly focused on analyzing the impact of indirect taxes on fiscal stability. In particular, O. Ergashev (2024) studied the share of value-added tax and excise duties in the country's budget revenues. These studies examined the economic efficiency of taxes and the possibilities of ensuring budget stability through their effective management."

Another Uzbek scholar, Rakhmonov (2018), also presented views on the directions of budgetary policy. In particular, he emphasized that budget funding for the social sector should primarily focus on education, healthcare, and science.

A high level of fiscal deficit can reduce savings and lead to inflation, high interest rates, and balance of payments problems, which in turn negatively affect economic growth. Economic instability can also cause political uncertainty, reduce the returns on investment, and lead to the misallocation of resources. As a result, the price system may be disrupted, and economic growth may slow down (Fischer, 1993; Fatas and Mihov, 2013).

In developing countries, the link between fiscal deficits and economic growth may not be clear and can depend on how the deficit is financed. Studies show that the impact of reducing fiscal deficits on growth depends on the level of the deficit. For example, Adam and Bevan (2013) found that in developing countries, lowering the fiscal deficit to below 1.5% of GDP might not have a positive impact on long-term growth and could even produce adverse effects. Moreover, how the deficit is financed also plays a significant role. Gupta et al. (2005) demonstrated that when the amount of domestic financing is significantly reduced during deficit consolidation, it is usually associated with higher economic growth.

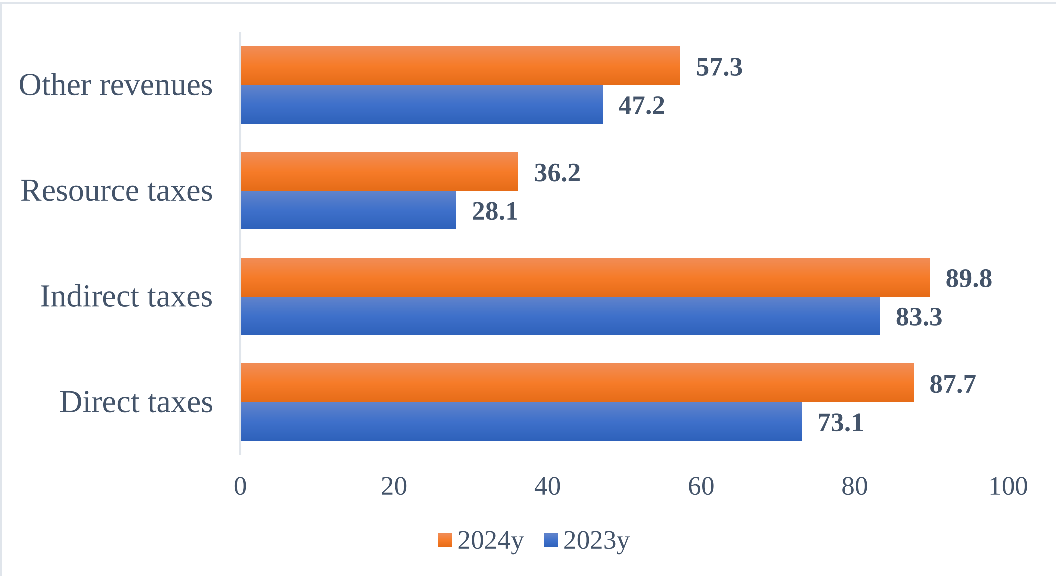
Ilzetzki et al. (2013) state that “The role of fiscal policy in ensuring economic stability has long been one of the main topics of debate between Keynesian and neoclassical approaches. These discussions emphasize that the effectiveness of fiscal policy depends on various structural factors, including trade openness, credit conditions, domestic industrial scale, exchange rate fluctuations, inflation levels, and the size of public debt.”

Research methodology.

This study employed a systematic approach, comparative analysis, and statistical and graphical methods. The primary focus was on Uzbekistan’s fiscal indicators for the period 2020–2024, with an emphasis on analyzing the efficiency of state budget revenues and expenditures, particularly social spending. In addition, based on the analysis of international experience, proposals were developed for improving the national fiscal policy.

Analysis and results.

Based on data from 2023 and 2024, it can be observed that the main sources of state budget revenues have increased significantly.

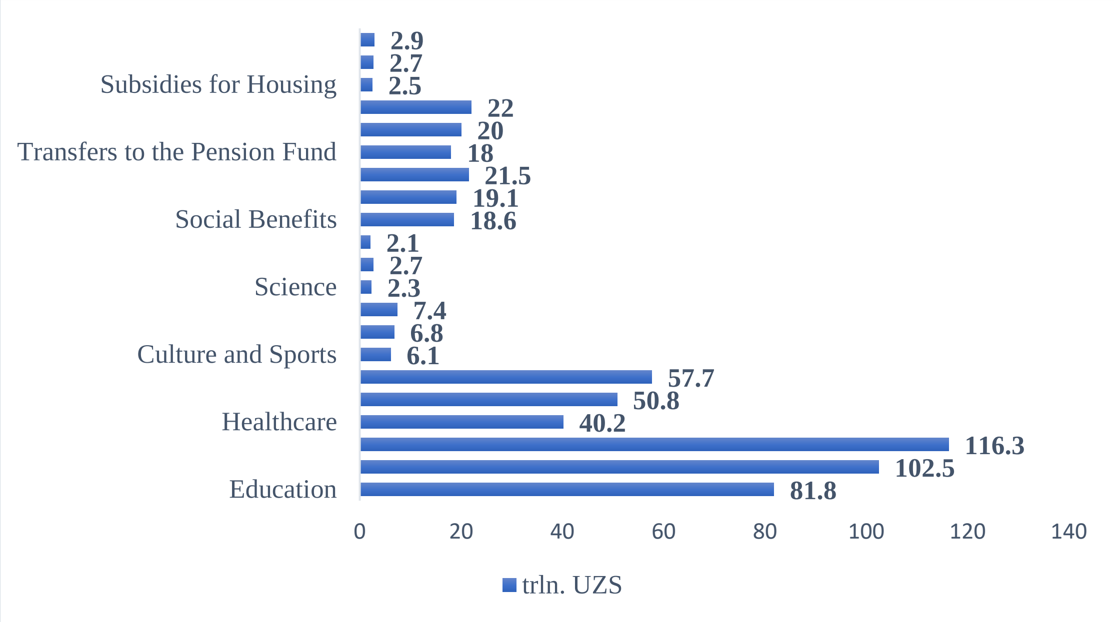


"Figure 1. Structure of state budget revenues for 2023-2024, *trillion UZS.*"[1]

Direct taxes increased from 73.1 trillion UZS in 2023 to 87.7 trillion UZS in 2024, showing a 19.9% increase. This reflects the growth in economic activity and the expansion of the tax base. Indirect taxes also rose from 83.3 trillion UZS to 89.8 trillion UZS, a 7.8% increase, which can be explained by the growth in consumption or improved tax revenue management. Resource taxes showed the highest growth, rising from 28.1 trillion UZS to 36.2 trillion UZS, a 28.8% increase. Other revenues (from state assets, fines, customs duties, etc.) increased from 47.2 trillion UZS in 2023 to 57.3 trillion UZS in 2024, a 21.4% increase. In 2024, budget revenues grew across all sources, indicating that a necessary financial foundation is being created to maintain fiscal stability and finance government expenditures. Moreover, this growth reflects the systematic strengthening of fiscal policy and the recovery of economic activity.

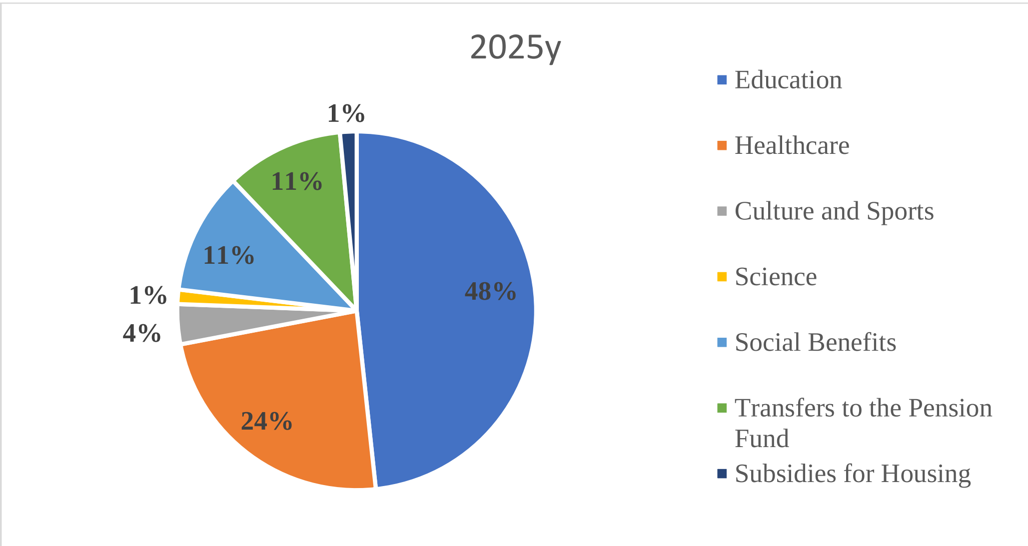
In 2025, it is planned to allocate a total of 170.3 trillion UZS, or around 11% of GDP, to the social sector, which is 11% more than in 2024. For 2026–2027, social sector expenditures are projected to be 201.8 trillion UZS and 225.0 trillion UZS, respectively.

[1] https://stat.uz/uz



"Figure 2. Composition of Social Expenditures in 2025, *trillion UZS*."[2]

The amount of funds allocated to social sectors within the framework of the State Budget of the Republic of Uzbekistan has been increasing year by year. The following graph analyzes the budget expenditures for 2024, allocated for the areas of education, healthcare, science, culture and sports, transfers to the pension fund, social benefits, and housing subsidies. According to the analysis, the largest amount of funds — 116.3 trillion UZS — has been allocated to the education sector, which reflects the government's priority approach to investing in human capital. Following education, the healthcare system is the second largest recipient of funds (102.5 trillion and 81.8 trillion UZS). This represents important financial support aimed at promoting public health and demographic development. Significant amounts have also been allocated to culture and sports — 57.7 trillion, 50.8 trillion, and 40.2 trillion UZS. This highlights the government's focus on youth education and promoting a healthy lifestyle as a key direction of state policy. Although the amount allocated to science is relatively smaller (7.4 trillion, 6.8 trillion, and 6.1 trillion UZS), it indicates ongoing efforts to support science and innovation activities. Furthermore, expenditures on transfers to the pension fund (22 trillion, 20 trillion, and 18 trillion UZS), social benefits (21.5 trillion, 19.1 trillion, and 18.6 trillion UZS), and housing subsidies (2.9 trillion, 2.7 trillion, and 2.5 trillion UZS) contribute to strengthening social protection for the population.



"Figure 3. Composition of Social Expenditures in 2025, *percentage*."[3]

The budget allocations for social sectors in 2025 have been analyzed using bar and pie charts. The horizontal bar chart represents the amount of expenditures in trillion UZS, while the pie chart shows their share in total expenditures (as a percentage). According to the analysis, the education sector

[2] https://www.imv.uz
[3] https://www.imv.uz

receives the largest share of social sector expenditures — 116.3 trillion UZS, which accounts for 48% of total social expenditures. Following education, the healthcare sector is allocated 57.7 trillion UZS, representing 24% of the total. Furthermore, social protection areas (transfers to the pension fund and social benefits) are allocated approximately 52 trillion UZS, which makes up about 22% of total expenditures. The remaining funds are allocated to culture and sports (4%), science (1%), and housing subsidies (1%). This shows that education, healthcare, and social protection are prioritized in social policy. This analysis clearly demonstrates the social orientation of the fiscal policy and indicates the effective allocation of resources towards priority areas for ensuring socio-economic stability.

Based on the analysis, the following **conclusions** can be made: The effective implementation of fiscal policy is a key factor in fulfilling the state's social obligations, stimulating economic growth, and ensuring financial stability. The steady growth of budget revenues contributes to the expansion of state financial resources. Specifically, the increase in direct and indirect taxes indicates improved economic activity and fiscal management. The gradual increase in social expenditures, especially the rise in allocations for education and healthcare, reflects the government's prioritization of human capital development. Proper management of the state budget and prudent use of budgetary funds contribute to economic growth and reduce the risk of fiscal deficits.

Based on this, the following **proposals** are put forward: To ensure stability and transparency in budget-tax policy, it is necessary to improve the targeted and efficient collection of taxes. Strengthening the potential of local budgets and increasing local revenue sources by stimulating economic activity in the regions should be prioritized. Strengthening the monitoring and evaluation system for budget allocations to the social sector to ensure their effectiveness is advisable. Expanding the tax base and reducing the share of the informal economy will help mobilize additional financial resources. Expanding the practice of medium- and long-term budget planning will enhance the forecast-based nature of fiscal policy.

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