



---

## **THE IMPACT OF BUDGETARY POLICY OF THE REPUBLIC OF UZBEKISTAN ON MACROECONOMIC STABILITY**

Mukhammadali Boymatov

Head of Corporate Training at MDIS Tashkent

---

### **Abstract**

This thesis provides an in-depth analysis of the influence of budgetary policy in the Republic of Uzbekistan on macroeconomic stability in the period since its independence. Through an examination of fiscal frameworks, government revenues and expenditures, and the effectiveness of fiscal reforms, the research illustrates how budgetary decisions impact inflation, growth, public debt, and balance of payments. Combining theoretical perspectives, empirical data, and critical review of fiscal policy developments, the thesis underscores the strengths and weaknesses of Uzbekistan's approach, the challenges posed by external shocks, and the prospects for sustainable stability. The article incorporates recent trends and global comparisons, drawing upon official documents, international financial institutions' analyses, and academic literature, to provide thorough recommendations for further policy improvement.

**Keywords:** Budgetary Policy, Uzbekistan, Macroeconomic Stability, Fiscal Reform, Public Debt, Economic Growth, Inflation

### **Introduction**

The relationship between budgetary policy and macroeconomic stability is a cornerstone of economic management for emerging economies. In the case of the Republic of Uzbekistan, which gained independence from the Soviet Union in 1991, these connections are particularly pronounced due to the country's transition from a planned to a market economy, its evolving institutional environment, and exposure to both internal and external economic shocks. This thesis examines how Uzbekistan's budgetary policy—encompassing public



## *Modern American Journal of Business, Economics, and Entrepreneurship*

ISSN (E): 3067-7203

Volume 01, Issue 05, August, 2025

Website: [usajournals.org](http://usajournals.org)

*This work is Licensed under CC BY 4.0 a Creative Commons  
Attribution 4.0 International License.*

revenues, expenditures, fiscal balances, and reforms—has influenced macroeconomic stability from the early 1990s to the present. The research aims to: Provide a theoretical and empirical foundation for assessing macroeconomic stability in the Uzbek context; Analyze the evolution and structure of Uzbekistan's budgetary policy; Evaluate the impact on inflation, growth, public debt, and external balances; Identify policy successes and persisting challenges. The thesis relies on a broad range of data sources, including official government statistics, World Bank and IMF reports, and relevant academic studies. It adopts an analytical narrative complemented by quantitative evaluations and comparative perspectives.

### **Theoretical Frameworks**

Budgetary policy, or fiscal policy, refers to the government's decisions on public revenues (mainly taxation), expenditures, and borrowing. According to Keynesian theory, expansionary fiscal policy can stimulate output and employment during downturns, while contractionary measures can contain inflation. More recent approaches stress fiscal sustainability and the risks posed by excessive public debt (Blanchard & Johnson, 2012).

Macroeconomic stability is commonly characterized by low inflation, sustainable growth, manageable external balances, and low public debt ratios (Berg & Sachs, 1988; IMF, 2022). Instability often arises from fiscal imbalances, unsustainable deficits, procyclical fiscal responses, and weak policy frameworks.

### **Empirical Evidence from Transition Economies**

Studies of transition economies in Eastern Europe and Central Asia have highlighted the importance of fiscal discipline, diversification of revenue sources, and transparency for sustaining economic growth and stability (Dabrowski, 2013). The World Bank and IMF emphasize institutional capacity, multiyear fiscal planning, and countercyclical approaches as pillars for resilience (World Bank, 2021; IMF, 2022).

Uzbekistan's experience is unique among Central Asian states; it pursued a gradualist approach to reform, maintaining substantial state involvement in key



# ***Modern American Journal of Business, Economics, and Entrepreneurship***

**ISSN (E):** 3067-7203

**Volume 01, Issue 05, August, 2025**

**Website:** usajournals.org

***This work is Licensed under CC BY 4.0 a Creative Commons  
Attribution 4.0 International License.***

---

sectors and a cautious approach to liberalization—features that have shaped its budgetary strategy and macroeconomic outcomes (Pomfret, 2019; Spechler, 2008).

## **Uzbekistan's Budgetary Policy and Macroeconomic Performance**

Though empirical literature on Uzbekistan is growing, it often focuses on sectoral aspects—agriculture, industry, or specific reforms—rather than comprehensive macro-fiscal analysis (ADB, 2021; World Bank, 2020). Recent reforms under President Mirziyoyev (since 2016) mark an acceleration in fiscal openness, decentralization, and engagement with international financial organizations, sparking new research into their macroeconomic effects.

## **Methodology**

This thesis applies both qualitative and quantitative methods:

Descriptive Analysis of fiscal trends, using annual data from official sources, the World Bank, and IMF.

Comparative Analysis with peer economies (Kazakhstan, Kyrgyzstan, and others) to identify distinctive features.

Analytical Assessment of policy reforms and fiscal rules, based on published legislation and program reviews.

Critical Review of relevant literature, identifying strengths and gaps in policy design and implementation.

The synthesis of these approaches enables an integrated evaluation of how budgetary policy has contributed to macroeconomic stability or instability in Uzbekistan.

## **Historical Evolution of Budgetary Policy in Uzbekistan**

Early Independence: 1991–2003

Following independence, Uzbekistan inherited a fiscal system with heavy reliance on large state enterprises, centralized planning, and commodity exports (notably cotton and gold). Fiscal policy was characterized by:

High state ownership, direct subsidies, and price controls;

An emphasis on social stability, with subsidies for basic goods and services;

Limited openness to international capital and trade.



## *Modern American Journal of Business, Economics, and Entrepreneurship*

ISSN (E): 3067-7203

Volume 01, Issue 05, August, 2025

Website: [usajournals.org](http://usajournals.org)

*This work is Licensed under CC BY 4.0 a Creative Commons  
Attribution 4.0 International License.*

---

Despite maintaining moderate deficits, fiscal discipline in budgeting and the use of administrative controls averted hyperinflation experienced in other transition economies (Spechler, 2008).

**Reform and Gradual Liberalization: 2004–2016**

Entering the 2000s, budgetary policy shifted gradually:

Introduction of Value Added Tax (VAT) and reforms to broaden the tax base;

Efforts to rationalize subsidies and off-budget funds;

Improved revenue mobilization, largely anchored in public sector receipts.

Fiscal surpluses in some years reflected strong commodity prices and prudent expenditure controls, but also persistent off-budget transactions and limited fiscal transparency (World Bank, 2018).

**Accelerated Reform: 2016–Present**

Following the leadership change in 2016, fiscal policy embraced liberalization: Greater budget transparency, publication of statistical data, and reporting aligned with international standards;

Introduction of Medium-Term Expenditure Frameworks (MTEF) and fiscal risk assessments;

Removal or reduction of universal subsidies, reforms in public sector wage policy, and decentralization of spending authority.

Major tax reforms (2018–19) reduced marginal rates, simplified administration, and aimed to shift from direct to indirect taxation (World Bank, 2020; IMF, 2022).

### **Structure of Government Revenues and Expenditures**

#### **Revenue Mobilization**

Uzbekistan's government revenue composition has evolved:

**Tax Revenues:** Predominantly from VAT, corporate tax, personal income tax, excise duties, and resource-based revenues (notably gold, natural gas).

**Nontax Revenues:** Including dividends from state-owned enterprises and administrative fees.

Reforms have broadened the tax base, reduced rates, and gradually increased efficiency, although informality and tax evasion remain concerns (ADB, 2021).

#### **Public Expenditures**



## *Modern American Journal of Business, Economics, and Entrepreneurship*

ISSN (E): 3067-7203

Volume 01, Issue 05, August, 2025

Website: [usajournals.org](http://usajournals.org)

*This work is Licensed under CC BY 4.0 a Creative Commons  
Attribution 4.0 International License.*

---

Government spending focuses on:

Social protection, education, and healthcare (over 40% of budget);

Infrastructure development (transport, water, energy);

Subsidies and support for priority sectors.

Expenditure discipline has improved, but concerns about efficiency, targeting, and administrative overhead persist, especially at subnational levels (World Bank, 2020; IMF, 2022).

### Fiscal Balances and Public Debt

Uzbekistan traditionally maintained small budget deficits (often below 2% of GDP); however, deficits increased during pandemic-driven stimulus in 2020–2021 (peaking near 4.5% of GDP). Public debt surged from under 10% to about 36% of GDP within five years—still moderate by international standards but warranting attention (IMF, 2022).

### Impact of Budgetary Policy on Macroeconomic Stability

#### Inflation Dynamics

#### Fiscal Influence on Inflation

In early independence, administrative price controls and fiscal subsidies limited inflation, though at the cost of market distortions. The gradual shift to more market-driven budgeting helped anchor inflation expectations. However, aggressive wage and transfer increases in some years fed into price pressures, especially with monetary accommodation.

#### Recent Performance

The post-2017 liberalization was accompanied by higher inflation (peaking at 17.5% in 2018), partly attributable to devaluation and subsidy reforms. Prudent fiscal policies, including better-targeted transfers and steps toward subsidy elimination, contributed to reducing inflation to around 10% by 2022 (World Bank, 2022).

#### Economic Growth and Countercyclical Policy

#### Fiscal Policy as a Growth Driver

Public investment—financed through budgets or off-budget funds—has underpinned Uzbekistan's infrastructure and social development, supporting steady growth (averaging 5–8% annually through 2019).



## *Modern American Journal of Business, Economics, and Entrepreneurship*

ISSN (E): 3067-7203

Volume 01, Issue 05, August, 2025

Website: [usajournals.org](http://usajournals.org)

*This work is Licensed under CC BY 4.0 a Creative Commons  
Attribution 4.0 International License.*

---

### Countercyclical Responses

Unlike some peers, Uzbekistan historically avoided sharp procyclical fiscal cutbacks, using stabilization funds and moderate buffers to support activity during commodity downturns and the COVID-19 pandemic. IMF analyses suggest this contributed to softer economic downturns and earlier recoveries (IMF, 2022).

### Public Debt Sustainability

#### Pre-2016 Stability

Low public debt was a hallmark of Uzbek fiscal prudence, with conservative borrowing and restrictions on local governments' deficits.

#### Post-2016 Debt Increase

Higher deficits and external borrowing financed ambitious investment and shock mitigation. While debt remains manageable, medium-term risks are rising, especially given currency risk and growing contingent liabilities from state-owned enterprises (IMF, 2022; World Bank, 2021).

### External Balance and Balance of Payments

#### Role of Fiscal Policy

Public investment projects often spur import demand, influencing trade balances. Prudent fiscal management—building reserves during boom years and drawing them down during shocks—helped stabilize external accounts.

#### Vulnerabilities

Persistent current account deficits, driven in part by investment-led import increases, highlight the importance of synchronizing fiscal and trade policies, and of diversifying export bases beyond commodities.

#### Critical Assessment: Strengths and Weaknesses of Uzbekistan's Budgetary Policy

##### Strengths

Fiscal Prudence and Stability: Conservative deficit targets and low pre-pandemic public debt-built resilience.

Revenue Reforms: Tax base broadening and lower rates have improved collection and business climate.

Countercyclical Capacity: Use of stabilization funds mitigated external shocks' impact on growth and stability.



## *Modern American Journal of Business, Economics, and Entrepreneurship*

ISSN (E): 3067-7203

Volume 01, Issue 05, August, 2025

Website: [usajournals.org](http://usajournals.org)

*This work is Licensed under CC BY 4.0 a Creative Commons  
Attribution 4.0 International License.*

---

Transparency Gains: Introduction of open budget data and compliance with international reporting standards.

### Weaknesses

Efficiency of Expenditure: Persistent inefficiencies, poorly targeted subsidies, and sectoral imbalances remain.

Fiscal Risks: Growing public debt, state enterprise liabilities, and weak local government finances pose risks.

Administrative Overheads: High spending on administration and limited digitalization in some areas.

Limited Fiscal Decentralization: While improvements exist, regions have limited fiscal autonomy, affecting equitable development and service delivery.

### External Shocks and the Pandemic

The COVID-19 pandemic tested Uzbekistan's fiscal policy flexibility, with timely stimulus and social support measures. However, these increased deficits and debt, underscoring the need for long-term sustainability and improved fiscal risk management.

### Recent Reforms and International Comparisons

#### Recent Reforms

Medium-Term Budgeting: Adoption of MTEF to enhance predictability and prioritization.

Fiscal Rules: New frameworks for deficit and debt limits.

Public Financial Management (PFM): Digitization, public procurement reform, and civil service wage reform.

Targeted Social Spending: Shift from universal subsidies to targeted transfers, increasing equity and efficiency.

#### Comparison with Peer Economies

Kazakhstan and Azerbaijan, also resource-dependent, experienced greater macroeconomic volatility during commodity price swings, partly due to less conservative fiscal rules and heavier reliance on external borrowing (Dabrowski, 2013). Uzbekistan's gradualist approach and buffer-building were strengths, though recent reforms align it more closely with peer best practices.

#### Challenges and Prospects

#### Medium-Term Fiscal Risks



## *Modern American Journal of Business, Economics, and Entrepreneurship*

ISSN (E): 3067-7203

Volume 01, Issue 05, August, 2025

Website: [usajournals.org](http://usajournals.org)

*This work is Licensed under CC BY 4.0 a Creative Commons  
Attribution 4.0 International License.*

---

Rising public debt requires strengthened debt management, particularly transparency on state guarantees and SOE exposures.

Fiscal risks from natural disasters, commodity price swings, and contingent liabilities remain significant.

### Institutional and Governance Challenges

Public financial management reforms are ongoing, but capacity gaps persist at subnational levels.

Budget transparency still requires improvement, including citizen participation and independent audit structures.

### Sustainable Growth and Social Inclusion

Fiscal policy must balance infrastructure investment with growing demands for social protection and public services.

Demographic trends (a youthful population) create spending pressures but also opportunities for growth.

### Policy Recommendations

**Strengthen debt management and transparency:** Publish full information on public sector debt, contingent liabilities, and fiscal risks for SOEs and PPPs.

**Enhance expenditure efficiency:** Expand performance-based budgeting, digitalize public procurement, and improve expenditure targeting.

**Consolidate PFM reforms:** Continue rolling out MTEFs across all ministries; develop capacity at regional and municipal levels.

**Advance fiscal decentralization:** Assign more spending and revenue authority to local governments, tied to accountability measures.

**Build automatic stabilizers:** Expand programs for countercyclical transfers and unemployment insurance.

**Diversify the revenue base:** Reduce resource dependency by developing nontraditional sectors and modernizing tax administration.

**Promote inclusive and green spending:** Prioritize human capital, social safety nets, and green infrastructure in fiscal planning.

### Conclusion

Budgetary policy has played a pivotal role in shaping the trajectory of macroeconomic stability in Uzbekistan. Through a combination of conservative



## *Modern American Journal of Business, Economics, and Entrepreneurship*

ISSN (E): 3067-7203

Volume 01, Issue 05, August, 2025

Website: [usajournals.org](http://usajournals.org)

*This work is Licensed under CC BY 4.0 a Creative Commons  
Attribution 4.0 International License.*

fiscal management, strategic reforms, and timely responses to external shocks, Uzbekistan has generally avoided the macroeconomic volatility experienced by several of its peers. Nevertheless, the challenge ahead is to ensure that fiscal policy adapts to rising debt, investment needs, demographic challenges, and the imperatives of good governance.

A transition to more transparent, inclusive, and efficient budgeting—anchored in robust fiscal frameworks—will be crucial for sustaining macroeconomic stability and promoting equitable, resilient growth in the years ahead.

### References

1. Asian Development Bank (ADB) (2021). *Uzbekistan: Fiscal Management and Economic Prospects*. Manila: Asian Development Bank.
2. Berg, A., & Sachs, J. (1988). The Debt Crisis: Structural Explanations of Country Performance. *Journal of Development Economics*, 29(3), 271-301.
3. Blanchard, O., & Johnson, D.R. (2012). *Macroeconomics*. 6th Edition. Boston: Pearson.
4. Dabrowski, M. (2013). Monetary and Fiscal Policies in Post-Communist Countries: The Case of Central Asia. *CASE Network Studies & Analyses*, No. 457.
5. International Monetary Fund (IMF) (2022). *Uzbekistan: 2021 Article IV Consultation—Staff Report*. Washington, D.C.: IMF.
6. Pomfret, R. (2019). *The Central Asian Economies in the Twenty-First Century*. Princeton: Princeton University Press.
7. Spechler, M. (2008). *The Political Economy of Reform in Central Asia: Uzbekistan under Authoritarianism*. Routledge.
8. World Bank (2018). *Republic of Uzbekistan: Public Expenditure Review*. Washington, D.C.: World Bank Group.
9. World Bank (2020). *Uzbekistan Public Finance Review Update*. Washington, D.C.: World Bank Group.
10. World Bank (2021). *Macro-Fiscal Monitoring: Uzbekistan*. Washington, D.C.: World Bank Group.
11. World Bank (2022). *Uzbekistan Economic Update*. Washington, D.C.: World Bank Group.