

THE ROLE OF TAX REVENUES IN ENSURING THE SUSTAINABILITY OF THE STATE BUDGET

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ABSTRACT:

Tax revenues play a central role in ensuring the sustainability of, and enabling the effective functioning of, the state budget. In the context of the Republic of Uzbekistan, taxes are the main source of public revenue and are a vital tool for fiscal policy implementation and socio-economic development support. This article examines the role of tax revenues in maintaining the sustainability of Uzbekistan’s state budget, paying particular attention to their impact on budget stability, public expenditure and economic growth.

It analyses the structure of tax revenues in Uzbekistan, including income tax, VAT, property tax and other mandatory payments that contribute to the state budget. Particular emphasis is placed on the importance of stable and predictable tax inflows for effective budget planning and reducing fiscal deficits. Additionally, the article considers the influence of tax policy reforms and improvements in tax administration on revenue collection and

budgetary sustainability.

Furthermore, the research emphasises the social and economic importance of tax revenues in funding vital public services, including education, healthcare, infrastructure development and social protection programmes. In the case of Uzbekistan, the evaluation of ongoing reforms aimed at increasing transparency, digitalisation and fairness in the tax system is considered crucial for strengthening public trust and improving voluntary tax compliance.

The findings suggest that a well-balanced, transparent and efficient tax system is essential for ensuring the long-term sustainability of Uzbekistan's state budget. The article concludes that the continued modernisation of tax policy and administration is necessary to enhance fiscal stability, support inclusive economic growth and ensure the effective allocation of public resources within the national economy.

Introduction

The state budget is one of the main financial mechanisms that ensure a country's economic stability and social development. It is an important tool for achieving the state's strategic goals, meeting public needs and regulating economic processes. The effective and stable operation of the state budget depends, above all, on the strength of its revenue base. Taxes occupy a leading place among these revenues.

As the main source of state revenue, tax revenues are crucial for financing state expenditure, supporting social sectors and stimulating economic development. The continuous operation of important sectors such as education, healthcare, infrastructure and social protection directly depends on budget funds, particularly the stability of tax revenues. Therefore, ensuring the efficiency of the tax system and stable tax revenues is one of the

priority areas of state financial policy. According to the theory of public finance, an effective and stable tax system is one of the main factors that ensure the state budget operates continuously.

In Uzbekistan, a large proportion of state budget revenues are generated through taxes. In recent years, economic reforms have been implemented in the country with the aim of modernising the tax system, simplifying tax administration, and increasing the transparency of taxation. These reforms are intended to ensure budget stability, reduce the size of the shadow economy, and encourage entrepreneurship. However, the long-term sustainability of tax revenues, and their actual effect on the stability of the state budget, have not yet been adequately studied from a scientific perspective.

Key Roles of Tax Revenues

- **Funding Public Services:** Taxes finance essential government operations like healthcare, education, law enforcement, defense, and infrastructure development (roads, water, electricity).
- **Economic Regulation:** Tax policy acts as a tool to guide economic activity, influence investment, stimulate certain sectors, and promote sustainable practices.
- **Social Functions:** They fund social security, welfare programs, and support for vulnerable populations, ensuring social justice and reducing inequality.
- **Macroeconomic Stability:** Reliable tax revenue prevents budget deficits, supports fiscal discipline, and provides resources for macroeconomic balance, especially during economic downturns.
- **Development & Growth:** Sufficient tax collection (often cited as over 15% of GDP) is linked to increased economic growth, human capital development, and infrastructure investment, helping meet Sustainable Development Goals (SDGs).

Ensuring Sustainability

- **Broadening Tax Base:** Reducing reliance on single sources (like oil) and bringing more economic activity into the formal sector improves revenue stability.
- **Effective Tax Policy:** Adjusting rates, incentives, and improving tax administration (including digitalization) boosts collection efficiency and revenue growth.
- **Stable Legislation:** Predictable tax laws are essential for fostering business confidence and consistent revenue flow, though regular reviews are needed.

- **Balancing Fiscal Pressure:** A well-managed tax system achieves a balance where collection is robust enough to fund needs but doesn't unduly stifle economic activity, as seen in high-tax, high-standard-of-living countries like Denmark and Sweden.

This article provides an in-depth analysis of the role of tax revenues in ensuring the stability of the state budget. It examines the proportion of tax revenues in total revenues, their stability, and their importance in financing state expenditure. It also scientifically assesses the impact of tax policy reforms implemented in the Republic of Uzbekistan on budget stability.

Literature review:

The stability of state budgets and the role of taxes in this stability is one of the most widely studied topics in the economic sciences, particularly in public finance theory and fiscal policy. In the scientific literature, taxes are widely regarded as the primary source of state budget income, and their stability is recognised as a critical factor in the effective implementation of the state's economic and social policies. Consequently, the impact of tax revenues on state budget stability has been examined using various theoretical approaches and empirical studies.

According to the classical theory of public finance, taxes are the state's primary means of financing public goods and services. Classical economists such as Adam Smith and David Ricardo emphasised that fair and effective taxes are essential for the stability of the state financial system. The 'principles of taxation' set out by Adam Smith — fairness, accuracy, convenience and economy — are still used today as key criteria for evaluating tax systems. A tax system based on these principles provides stable revenue for the state budget.

Within the framework of Keynesian economic theory, taxes are considered an active instrument of fiscal policy. J. M. Keynes and his followers argued that taxes can be used to regulate economic activity, increase state spending during economic crises and maintain budget stability. In this approach, the stability of tax revenues is important not only for financing the budget, but also for ensuring macroeconomic stability.

A country's fiscal management is often judged by its ability to balance budget revenues and expenditure while fostering an environment conducive to sustainable economic development. For transition economies like Uzbekistan, which are navigating the shift from a planned to a market-based system, this task is particularly critical. The nation has undertaken significant reforms to modernise its fiscal system, with the aim of enhancing efficiency and transparency, and aligning it with market principles.

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According to the Ministry of Finance of the Republic of Uzbekistan, consolidated state budget revenues for 2024 were projected to reach 360 trillion UZS, accounting for around 25.3% of the forecasted GDP. This ratio indicates the state's significant role in the economy. Tax revenues remain the dominant source, accounting for over 85% of total budget revenues, with value-added tax (VAT), corporate income tax, and personal income tax being the primary contributors.

Despite progressive reforms, challenges to achieving optimal fiscal stability persist. A key issue is the structure of the tax base. A 2023 study by the World Bank revealed that the informal economy in Uzbekistan still accounts for a significant proportion of economic activity. This restricts the potential tax base and results in revenue losses estimated at 2–3% of GDP each year. Furthermore, the efficiency of public expenditure remains a key area of focus. While public investment has increased, the International Monetary Fund (IMF) has noted that its efficiency in terms of infrastructure quality and return on investment needs to be enhanced further to bolster long-term growth. Recent reforms have been ambitious.

The updated Tax Code, which came into effect on 1 January 2024, aimed to reduce the administrative burden on businesses, decrease the profit tax rate for specific sectors and increase the use of digital technologies in tax administration. The 'Budget for Citizens' initiative, which was launched to improve transparency, has been a positive step towards strengthening public trust and accountability.

In particular, the scientific literature notes that the changes made to the Tax Code of the Republic of Uzbekistan served to expand the tax base and stabilise budget revenues.

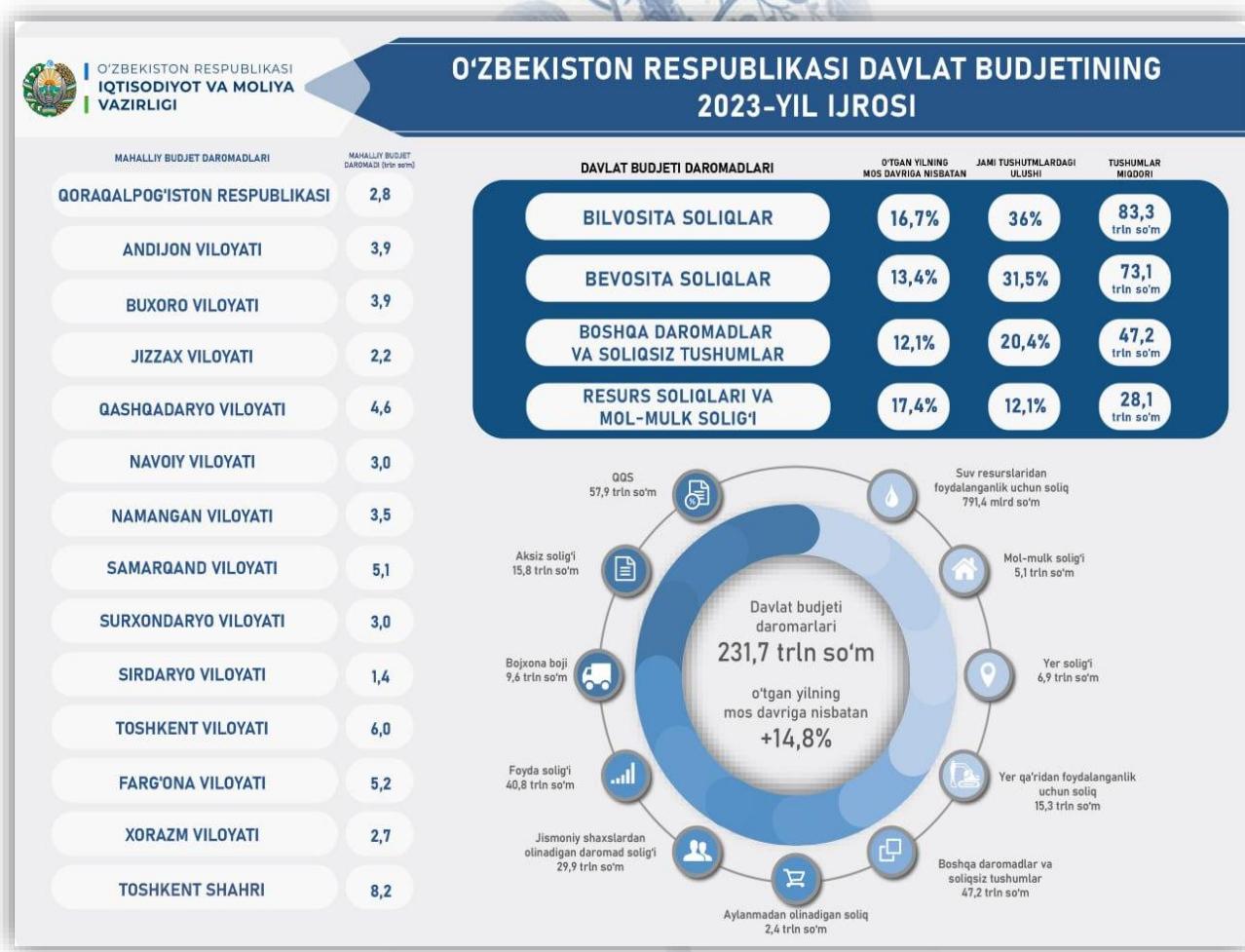
In Uzbekistan, the hidden economy is also seen as one of the main factors negatively affecting the stability of tax revenues. Several studies emphasise that reducing tax rates and simplifying tax administration can reduce the size of the hidden economy. This would increase the revenue part of the state budget and ensure its stability.

In conclusion, analysis of the scientific literature shows that tax revenues are crucial for the stability of the state budget. International and national studies confirm that an effective, fair and transparent tax system is crucial in ensuring the stability of state finances. However, in Uzbekistan, the modernisation of the tax system, improvement of tax administration, and increased stability of tax revenues still require in-depth scientific analysis. This article aims to address this scientific gap.

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Methods and materials

This section provides a detailed description of the data sources used for the study, as well as the scientific and analytical methods employed to evaluate the impact of tax revenues on the sustainability of the state budget. The research process was based on official statistical data on the execution of the state budget for 2023, published by the Ministry of Economy and Finance of the Republic of Uzbekistan. The composition, share and growth rates of tax revenues were used as the main indicators for the analysis. Structural analysis, comparison and dynamic observation methods were also employed to evaluate the sustainability of tax revenues.



This study examined the role of tax revenues in ensuring the stability of the Republic of Uzbekistan's state budget using official statistical data. The main source of information was the Ministry of Economy and Finance of the Republic of Uzbekistan's official data on the execution of the state budget for 2023.

The analysis examined the total volume of state budget revenues, the composition of tax revenues, and their dynamics. State budget revenues were analysed in terms of direct and indirect taxes, resource taxes, property taxes, and other and non-tax revenues. The main analytical indicator was the fact that state budget revenues amounted to 231.7 trillion soums in 2023, which was an increase of 14.8% compared to the previous year.

Structural analysis, comparison and generalisation were employed as the research methodology. These methods were used to assess the share of tax revenues in state budget revenues, their stability and their importance in financing budget expenditure.

State Budget Expenditure in UZS bln.	Q1 2022	Q2 2022	Q1 2023	Q2 2023
Expenditure on social spheres	23,471	30,618	26,433	58,457
Expenditure on economic affairs	5,198	8,293	11,318	20,096
Financing investment projects	2,040	6,878	2,805	12,031
Maintenance expenditure on government institutions and agencies	2,810	3,241	3,492	38,615
Reserve funds of the budgets of the Cabinet of Ministers of the Rep. of Uzbekistan and Karakalpakstan	317	561	301	672
Repayment of state debts	421	1,079	1,214	708
Other expenditures	8,686	9,415	7,176	141
Total	42,943	60,085	52,738	130,720

State Budget Expenditures values are as of restated to stay consistent and make it comprehensive for the consideration of audience. For the full disclosure on the stated report of the state budget, please refer to Open Budget.

Based on the research analysis of the World Bank on the fiscal policies of 148 countries, the CBU stated that the fiscal policy in Uzbekistan was acyclical, as the state of the fiscal

policy was not amended according to the changes and the state of the business cycle of the economy.

And it becomes quite obvious that Uzbekistan has been indeed mostly applying expansionary fiscal policy in the country, that as it can be observed from the table above.

As well as it is recent, the Uzbek government reforms in the energy industry, specifically regarding the state subsidies on the energy consumption of the population, has been a supporting step.

As a result, the information sources and analytical methods employed enabled the significance of tax revenues in the formation of state budget revenues to be determined. This enabled the real impact of the tax policy reforms being implemented in the Republic of Uzbekistan on budget stability to be scientifically assessed, and created a solid basis for further analysis.

Conclusion

The aim of this study was to analyse the role and importance of tax revenues in ensuring the stability of the Republic of Uzbekistan's state budget. The results show that tax revenues are the state budget's main source of income and play a decisive role in ensuring its stable operation and the effective implementation of social and economic policies. The study confirmed that continuous financing of important sectors such as education, healthcare, infrastructure, and social protection depends directly on the stability of budget revenues, particularly tax revenues.

According to the analysis of the 2023 state budget execution results, the majority of state budget revenues were generated through taxes, with their total volume increasing significantly compared to the previous year. This indicates the positive effect of tax policy reforms, the simplification of tax administration, and the digitalisation processes being carried out in the Republic of Uzbekistan. In particular, the proportion of direct and indirect taxes in budget revenues is an important factor in ensuring the stability of state finances. The study found that stable tax revenues are important not only for maintaining the balance of the state budget, but also for ensuring macroeconomic stability. Stable tax revenues enable the growth of public debt to be limited, fiscal risks to be reduced and economic growth to be supported. At the same time, a fair and transparent tax system increases taxpayer confidence and the level of voluntary tax payment.

However, the study's results also indicate that ensuring the long-term sustainability of tax revenues in Uzbekistan remains problematic. In particular, the sizeable shadow economy,

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incomplete tax base coverage, and insufficient tax discipline in certain sectors could have a negative impact on budget sustainability. Therefore, improving tax policy, expanding the tax base and streamlining tax administration remain urgent tasks.

In conclusion, the results of the study confirm once again that tax revenues are the main source of support for the stability of the state budget. The consistent continuation of tax reforms in the Republic of Uzbekistan that make the tax system more transparent and efficient, and ensure the stability of tax revenues, are of great importance for state financial stability and long-term economic development. The results of this study can serve as a theoretical and practical basis for future scientific research aimed at improving tax policy.

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