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Efficient Public Finance for Economic Stability in Uzbekistan

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Abstract: This article presents a comprehensive analysis of the financial policy reforms and the effective utilization of public financial resources in the Republic of Uzbekistan over the period 2016–2024. The study explores key transformations in the quality of public budget management, the evolution of tax policy, and the creation of a more favorable investment environment. It emphasizes the strategic measures taken to ensure sustainable national economic growth through the prudent and targeted use of both internal and external financial sources. Special attention is given to assessing the impact and efficiency of these fiscal policy reforms on the broader economy, as well as drawing comparative insights from international experiences. The article identifies key challenges and proposes practical solutions to address systemic inefficiencies. It also puts forward concrete recommendations aimed at strengthening macroeconomic stability and improving the state financial management system. By providing a broad and analytical perspective, this work highlights both the achievements of Uzbekistan's financial policy and the critical issues that require further resolution. The analysis underscores the importance of adaptive fiscal strategies in the context of global economic trends and national development goals.

Keywords: Fiscal Policy, State Budget, Tax Reforms, Investments, Fiscal Sustainability, Uzbekistan's Economy

1. Introduction

Since 2016, Uzbekistan has embarked on a period of significant transformation in its economic policy, marking a turning point in the country's approach to governance and development. This new phase of reform has been primarily characterized by the liberalization of the economy, the introduction of transparent and competitive market mechanisms, and the efficient use of state resources. A key goal has been deeper integration into the global financial system and increased engagement with international economic institutions.

At the heart of these reforms lies the country's financial policy, which plays a pivotal role in ensuring macroeconomic stability and sustaining economic growth. Within this framework, the government has undertaken comprehensive measures aimed at enhancing the clarity and transparency of the state budget, reforming the tax system, simplifying customs procedures, attracting both foreign and domestic investment, developing the insurance market, and adopting prudent external debt management strategies.

Government incentives, subsidies, and financial support tools have become some of the primary drivers of economic development. These measures are designed not only to stimulate private sector activity but also to support strategic sectors of the economy and promote long-term financial sustainability (1).

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Nevertheless, despite the considerable progress made, several challenges in public financial management remain. Among them are the rising volume of external debt, the inefficient allocation of budgetary resources, the low structural efficiency of investment flows, the underdevelopment of the insurance market, and the insufficient transparency of financial data. These factors continue to undermine the effectiveness of economic policy and pose risks to sustained economic performance.

This article seeks to analyze the key fiscal and economic reforms implemented in Uzbekistan between 2016 and 2024. In particular, it assesses the role of financial instruments such as the state budget, tax and customs policies, the investment climate, the insurance system, and the management of external debt. Through this examination, the study evaluates their impact on overall economic development.

Moreover, by drawing on international experience, the article identifies the strengths and weaknesses of Uzbekistan's financial policy and proposes concrete, forward-looking recommendations aimed at improving its efficiency and impact in the years to come (2).

2. Materials and Methods

This study employs a qualitative-descriptive research design with a document analysis approach, focusing on financial and policy reforms implemented in Uzbekistan between 2016 and 2024. Data were collected through the examination of official government publications, international financial institution reports (World Bank, IMF), economic statistics, and academic literature relevant to public financial management, tax policy, investment strategies, and debt regulation. Comparative analysis was also conducted by referencing global best practices from countries such as Chile, South Korea, and Norway to evaluate the effectiveness of Uzbekistan's financial reforms. The collected data were interpreted thematically to identify reform outcomes, persistent challenges, and strategic recommendations.

3. Results and Discussion

Utilization of State Budget Funds

Prior to 2016, Uzbekistan's public financial system was heavily dependent on extra-budgetary funds, which accounted for a significant portion of government expenditures. This system created serious challenges to transparency and the efficient use of resources. The fragmentation of financial flows and the lack of centralized oversight undermined fiscal discipline and limited the strategic allocation of public funds.

In response, the period between 2017 and 2019 witnessed the introduction of several pivotal reforms aimed at increasing transparency and consolidating public financial resources. One of the key developments was the launch of the "Citizens' Budget" publication, which aimed to enhance public awareness and engagement in budgetary processes. In parallel, numerous extra-budgetary funds were gradually integrated into the central state budget, and expenditure categories were clarified to improve planning and accountability.

A major milestone was reached in 2020, when 23 large public funds were formally incorporated into the budgetary system. This move significantly improved transparency in budget planning and execution, allowing for better oversight and more coherent fiscal policy. As a result, sectors such as education and healthcare saw increased allocations, contributing to improved social outcomes.

By 2024, the budget deficit had been reduced to 3.2% of GDP — a notable indicator of progress toward achieving fiscal sustainability. This decline reflects enhanced expenditure discipline, improved revenue collection mechanisms, and more efficient prioritization of public spending (3,4). The consolidation of the budget has not only allowed for better control over financial flows but has also laid the groundwork for long-term improvements in the country's fiscal architecture.

Positive Impacts of Tax Incentives and Tax Policy Reforms

Tax policy liberalization has been a central component of Uzbekistan's financial reforms since 2016. A milestone in this process was the adoption of a new Tax Code in 2019, which introduced substantial changes aimed at creating a more transparent, efficient, and investor-friendly tax system. Among the key reforms was the reduction of tax rates and simplification of the overall tax structure.

For instance, a unified tax rate of 12% was established for personal income tax and social contributions, replacing the previous multi-tiered system. This shift significantly simplified tax administration and reduced compliance costs for individuals and businesses alike. As a result, the number of registered taxpayers increased, signaling improved engagement with the formal economy (5–7).

The reduction in the tax burden was particularly beneficial for small and medium-sized enterprises (SMEs), incentivizing them to operate within the official economic sector. In 2019, tax revenues increased by 30%, reflecting both the improved efficiency of tax collection and the growing taxpayer base. This marked a clear indication of the reforms' effectiveness in broadening the fiscal space without increasing tax pressure.

Simultaneously, the government pursued a policy of using tax incentives to attract investment, particularly within free economic zones (FEZs). Customs and tax exemptions offered to investors in these zones contributed to industrial development and job creation, reinforcing economic diversification efforts.

However, not all tax incentives have proven equally effective. Experts and international organizations have emphasized the need for a systematic review of tax benefits based on cost-benefit analysis. Inefficient or poorly targeted incentives may reduce public revenues and distort market competition (1, 4–6). Therefore, optimizing the design and implementation of tax incentives remains a priority for ensuring long-term fiscal balance and equitable economic growth.

Utilization of Domestic and Foreign Investment

Uzbekistan's investment climate has seen significant improvement over the period 2016–2023. The inflow of foreign direct investment (FDI) increased markedly, driven by both domestic liberalization and active global engagement. Reforms aimed at strengthening investor protections, liberalizing the legal framework, and increasing transparency in economic policy have enhanced Uzbekistan's attractiveness to foreign investors.

Key initiatives included the acceleration of privatization processes, the expansion of public-private partnership (PPP) mechanisms, and the introduction of investment subsidies. These measures have helped shift the economy toward a more open and competitive model, encouraging both domestic and international actors to participate in strategic sectors (2–4).

Domestically, the government has taken steps to mobilize internal investment through enhanced financial intermediation. The role of commercial banks and financial institutions has been expanded to provide greater access to credit, particularly for SMEs and start-ups. At the same time, reforms have been launched in financial infrastructure sectors such as the insurance market and capital markets. This included regulatory modernization, improved supervision, and the development of new financial instruments aimed at deepening financial inclusion (7–9).

These developments represent a comprehensive strategy to diversify financing sources, reduce reliance on public funding, and foster a more resilient and inclusive investment ecosystem.

International Experience and Policy Recommendations for Uzbekistan

Drawing lessons from global best practices, institutions such as the World Bank and the International Monetary Fund (IMF) recommend that the principles of transparency,

efficiency, and accountability form the cornerstone of public financial management. These principles are crucial for the effective utilization of public financial resources and long-term macroeconomic stability.

Countries such as Chile, the Republic of Korea, and Estonia offer valuable examples. These nations have successfully implemented results-based budgeting systems, where government spending is closely tied to measurable outcomes. Such practices have helped them achieve fiscal discipline while improving the quality of public services and economic resilience (10).

For Uzbekistan, adopting similar models tailored to its institutional context can significantly enhance the performance of public finances. Specific recommendations include:

- a. Introducing medium-term expenditure frameworks (MTEF) to align fiscal planning with development priorities;
- b. Establishing performance-based budgeting at both national and regional levels;
- c. Expanding the digitalization of fiscal management systems to improve data accuracy and public transparency;
- d. Conducting regular audits and impact evaluations of major fiscal programs;
- e. Gradually phasing out ineffective tax incentives while strengthening those that yield measurable economic benefits.

These measures can ensure that financial resources are directed toward high-impact areas, fostering economic stability, inclusive growth, and institutional trust.

Policy Recommendations

To enhance the effectiveness and long-term sustainability of Uzbekistan's public financial management and economic reforms, the following policy recommendations are proposed:

- a. Evaluate and reallocate public expenditures based on performance outcomes to ensure efficient use of resources and alignment with development goals.
- b. Review tax incentives to eliminate ineffective or outdated benefits that reduce fiscal revenue or distort competition.
- c. Increase transparency and accountability by publishing detailed financial information and expanding public oversight mechanisms.
- d. Expand the role of public-private partnerships (PPPs) and encourage broader participation of the private sector in infrastructure and service delivery.
- e. Limit the growth of public debt through the introduction of fiscal rules and responsible borrowing frameworks, see Table 1.

Table 1. International Experience and Policy Recommendations for Uzbekistan.

Category	International Best Practices	Recommendations for Uzbekistan
Transparency & Accountability	- Emphasis by World Bank and IMF on transparency and accountability in public financial management	- Publish detailed fiscal data and improve public access to financial information
Budgeting Approach	- Chile, Korea, Estonia: Results-based and performance-linked budgeting	- Implement performance-based budgeting at national and regional levels

Fiscal Planning	- Medium-Term Expenditure Frameworks (MTEF) used to align budgets with long-term goals	- Adopt MTEF to better link policy, planning, and budgeting
Digitalization	- Advanced digital systems for budget execution, tracking, and citizen engagement in Estonia and Korea	- Expand digital fiscal systems to improve efficiency, accuracy, and transparency
Auditing & Evaluation	- Regular audits and program evaluations in advanced economies	- Conduct independent audits and impact evaluations of key fiscal initiatives
Tax Policy	- Gradual phasing out of ineffective incentives and strengthening productivity-enhancing ones	- Review and rationalize tax incentives to support innovation and investment
Public-Private Partnerships (PPP)	- Broad use of PPPs in infrastructure in countries like the UK and Korea	- Promote PPP frameworks and enhance private sector involvement in public service delivery
Public Debt Management	- Fiscal rules in countries like Chile and Germany to cap debt and ensure sustainability	- Introduce fiscal rules and responsible borrowing strategies to limit unsustainable debt growth
Inclusive Development	- Use of fiscal tools to promote inclusive growth and reduce inequality	- Allocate public funds to high-impact social and economic projects ensuring equity and resilience

Customs Incentives and the Promotion of Foreign Trade

Since 2016, Uzbekistan has entered a new phase in its foreign trade policy, moving away from a long-standing protectionist model characterized by high import tariffs and administrative restrictions. The transition toward a more liberal trade regime was motivated by the strategic goal of integrating the national economy into the global market, enhancing international competitiveness, and increasing foreign investment attractiveness (11–14).

Tariff Reforms and Administrative Streamlining

Starting in 2017, the country undertook significant revisions of its tariff policy. Average import tariffs, which stood at around 15.3% in 2016, were progressively reduced to 7.5% by 2020, aligning with international standards (Trade.gov, 2020). This reduction helped lower the cost of imported goods and forced domestic producers to become more competitive under liberalized conditions.

In 2023, the value-added tax (VAT) rate was reduced from 20% to 12%, further lowering trade barriers and boosting economic activity (World Bank, 2024). In addition, customs clearance procedures were digitized and simplified, notably through the implementation of the “Single Window” system, which significantly reduced time and transaction costs for exporters and importers.

These reforms encouraged greater entrepreneurial participation in foreign trade and contributed to a noticeable increase in trade turnover, particularly in non-traditional export sectors (15).

Customs Incentives and Investment Attraction

A key component of Uzbekistan's trade strategy has been the use of customs incentives to facilitate the importation of advanced technologies, industrial equipment, and raw materials. Specific measures include:

- a. Full exemption from customs duties for equipment and spare parts imported by foreign investors, subject to certain regulatory requirements (Taxsummaries.pwc.com, 2023).
- b. Duty-free treatment for re-exported goods for up to six months, benefiting logistics and processing enterprises.
- c. Special exemptions for high energy-efficiency technologies and environmentally friendly equipment, supporting the country's green development agenda.

Such incentives are especially prominent in Free Economic Zones (FEZs). For example, residents of the Navoi, Jizzakh, and Angren FEZs enjoy exemptions from land and property taxes in addition to customs privileges. If imported goods are not produced domestically, they may enter Uzbekistan without additional customs duties. This policy has proven instrumental in promoting industrial modernization and generating employment opportunities (16–19).

Export Capacity and the Role of Non-Traditional Goods

As a result of customs reforms and trade liberalization, Uzbekistan's export structure has undergone significant diversification. Between 2016 and 2024, the number of exporting enterprises increased, and the range of exported products broadened considerably.

The share of non-traditional export goods—including food products, chemicals, textiles, and IT services—increased by 16.5%, contributing to a more balanced and resilient export profile (World Bank, 2024) (1–4).

One of the fastest-growing segments has been the export of services, particularly in areas such as Business Process Outsourcing (BPO), information technology, and telemedicine. These sectors benefited from targeted customs incentives, such as the simplified import of know-how and specialized equipment needed by IT companies.

This shift marks a move toward a more knowledge-based economy, and positions Uzbekistan to better compete in the global digital services market.

Existing Challenges and Proposed Solutions

Despite notable progress in reforming customs incentives and foreign trade policy, several structural challenges persist that hinder the effectiveness and fairness of incentive programs:

- a. Sectoral concentration of incentives has led to imbalances in market competition, as benefits are often restricted to specific industries.
- b. Risks of misuse and corruption remain, with concerns that influential interest groups may exploit benefits without delivering commensurate economic value.
- c. The absence of a transparent and automatic tracking system for all tax and customs incentives makes it difficult to evaluate their actual impact and cost-effectiveness.

Proposed Solutions

To address these issues, Uzbekistan should implement the following measures:

- a. Establish a comprehensive impact evaluation system for all tax and customs incentives, allowing for data-driven policymaking.
- b. Develop a centralized online platform that consolidates and publicly displays all active fiscal incentives and their beneficiaries.
- c. Introduce a systematic performance monitoring mechanism for Free Economic Zones (FEZs), including procedures to identify and disqualify underperforming or inactive resident companies.

Such steps would enhance fiscal transparency, improve public resource allocation, and increase the credibility of Uzbekistan's incentive-based economic model.

External Debt and Public Debt Policy

As of 2016, Uzbekistan's external public debt was relatively modest, estimated at approximately 8–10% of GDP. The government pursued a cautious debt policy, primarily relying on concessional borrowing for select strategic initiatives. However, during the reform era that followed, Uzbekistan adopted a more expansive financing strategy, leveraging preferential loans from international financial institutions and foreign creditors to fund major infrastructure and development projects.

By the end of 2024, the country's total external debt reached a historic high of \$64.1 billion, equivalent to 55.7% of GDP. Of this, public external debt accounted for \$33.9 billion, or roughly 30% of GDP. This rapid debt accumulation supported large-scale investments in energy, transportation, agriculture, and social infrastructure, helping to sustain annual GDP growth rates of 5–7% from 2017 onward (1–2).

Fiscal Rules and Debt Control Measures

Recognizing the potential risks of rising debt, the government has adopted stricter debt management practices. Since 2021, a presidential decree has imposed annual limits on new external borrowing—for example, \$5 billion in 2023 and \$5.5 billion in 2025.

Furthermore, the Law on Public Debt, adopted in 2023, introduced a constitutional safeguard limiting total public debt to no more than 60% of GDP. If debt approaches 50% of GDP, the government is required to submit a debt reduction strategy. Additionally, the annual budget deficit must not exceed 3% of GDP, with 2024's fiscal planning adhering to this threshold.

These fiscal rules aim to preserve economic security and ensure debt sustainability over the medium term.

Debt Structure and Market-Based Financing

In managing its external obligations, Uzbekistan has emphasized long-term, low-interest loans from multilateral organizations such as the World Bank (\$6.6 billion) and the Asian Development Bank (\$6.4 billion) as of early 2025. These institutions remain the country's largest creditors, providing favorable financing terms that mitigate debt servicing pressures.

In 2019, Uzbekistan entered international capital markets for the first time by issuing \$1 billion in sovereign Eurobonds. This marked a strategic move to diversify funding sources and attract portfolio investments. Since then, the government and state-owned enterprises, including major commercial banks and national corporations such as *Uzbekneftegaz*, have regularly issued Eurobonds.

However, debt servicing costs for Eurobonds have increased significantly. Between 2019 and 2024, annual interest payments on sovereign bonds surged to \$468 million, representing a tenfold increase compared to 2019. In total, external debt interest payments reached \$3.3 billion in 2024, driven by both growing obligations and rising global interest rates.

Despite these pressures, the government prioritized social sector spending in the 2024 budget. Allocations for education and healthcare increased, demonstrating a commitment to maintaining social stability while pursuing fiscal consolidation (1–4, 16–19).

Foreign Direct and Portfolio Investments in Uzbekistan

Attracting foreign direct investment (FDI) and boosting portfolio investments through financial markets are of strategic importance to ensure sustainable growth in the national economy. Since 2016, Uzbekistan has significantly increased the openness of its economy, leading to a marked improvement in investor attractiveness.

One of the first and most critical reforms came in 2017, when Uzbekistan liberalized its foreign exchange market. The national currency, the Uzbek soum, was allowed to float freely, eliminating one of the biggest barriers for foreign investors (*kitob.sies.uz*). In parallel, improvements were made in protecting property rights, enforcing contracts, and simplifying licensing procedures. As a result, Uzbekistan made rapid progress in the World Bank's "Ease of Doing Business" rankings.

In addition, free economic zones (FEZs) were established across the country, and sector-specific investment incentives (tax and customs relief) were introduced to attract foreign capital. For example, in the automotive industry, joint ventures were launched with German and Chinese firms. In the energy sector, Saudi Arabia's ACWA Power invested \$2.4 billion in a major 1.5 GW wind park in Karakalpakstan. These large-scale FDI projects are playing a key role in diversifying the country's industrial structure and enhancing export capacity (1–5).

From 2016 to 2023, the net annual inflow of FDI to Uzbekistan grew significantly. In 2016, net FDI was around \$1.7 billion. By 2019, this figure had risen to \$4.2 billion. Despite the effects of the COVID-19 pandemic, investment flows began to recover in subsequent years. According to UNCTAD data, total FDI in 2023 exceeded \$2.5 billion — an 86% increase compared to 2016. The share of FDI in gross domestic product (GDP) also grew, surpassing 3% in 2023, and accounted for approximately 30% of total capital investment.

In 2024, domestic investment increased rapidly, with more than 90% financed through non-government sources. Notably, \$11.9 billion in foreign investment was attracted — likely including reinvested earnings and external loans. FDI was primarily directed into sectors such as energy, metallurgy, chemicals, and construction materials. Leading investor countries included China (which accounted for around 65% of total investment stock), South Korea, Russia, Kazakhstan, and Turkey. These developments contributed to the modernization of industrial capacity and diversification of export-oriented goods.

Portfolio Investments and Capital Market Development

Starting in 2018, Uzbekistan began issuing government securities in domestic markets. In 2019, it entered the international capital markets for the first time by issuing sovereign Eurobonds. The successful placement of 5-year and 10-year Eurobonds received strong demand from international investors. Following this, Uzbek corporations and banks began raising capital via Eurobonds — introducing a new stream of portfolio investment into the country.

Foreign investors began showing increasing interest in Uzbekistan's sovereign debt, influenced by its sovereign credit rating (BBB-) and growing macroeconomic stability. Between 2020 and 2023, foreign investors started purchasing government securities in the domestic market, while sovereign Eurobonds were traded on major international platforms such as the London Stock Exchange. These inflows have helped diversify Uzbekistan's financial resources, though they also introduce risks such as exchange rate volatility and external market uncertainty.

To mitigate these risks, the government has pursued a gradual approach to Eurobond issuance while maintaining debt sustainability. In 2024, Uzbekistan issued a total of \$1.5 billion in sovereign Eurobonds denominated in U.S. dollars, euros, and Uzbek soums. The offering received total bids exceeding \$5.5 billion, indicating strong investor confidence. These funds are being used to finance the Sustainable Development Goals (SDGs), particularly in sectors like infrastructure, energy, and environmental projects.

Efforts have also begun to develop the domestic capital market. Several major banks and corporations have initiated Initial Public Offerings (IPOs), allowing public trading of their shares. Foreign investors have started participating in select trades on the Tashkent Stock Exchange, although overall financial market capitalization remains low — around

1–2% of GDP – and portfolio investment is still limited. In the long term, expanding the domestic capital market and mobilizing savings from insurance and pension funds into securities markets will be essential for financial stability.

Outcomes of Financial Reforms and Existing Challenges

The financial reforms implemented from 2016 to 2024 have yielded significant positive changes in Uzbekistan's economy. Macroeconomic stability has improved considerably: the average annual GDP growth rate remained steady at 5–6%, reaching 6.5% in 2024. After an initial spike due to currency liberalization in 2017, inflation declined to around 9–10% by 2023 and is on track to approach the target of 5%.

Social spending in the state budget increased, and transparency in public finance improved. Since 2018, comprehensive budget data has been published openly, and the government introduced the "Budget for Citizens" initiative to promote transparency and public engagement. International financial institutions have praised Uzbekistan's progress toward open and accountable fiscal management.

Tax reforms have broadened the tax base. For example, in 2019, a reduction in tax rates led to over a 30% increase in tax revenues within a year. Additionally, tax burdens for small businesses were reduced, and the unified tax payment system was improved. Digitization of tax administration contributed to a more business-friendly environment (19–21).

In terms of foreign investment, Uzbekistan achieved tangible results. For years, annual FDI flows remained around \$1–2 billion. In 2019, this figure surpassed \$4 billion. After the pandemic, it stabilized at approximately \$2.5 billion in 2023. By the end of 2023, total FDI stock reached \$14.8 billion, equivalent to 16% of GDP.

Prudent use of external public debt has financed crucial projects in electricity supply, transport infrastructure, clean water, and more. The share of industry in GDP and the proportion of non-raw-material exports have increased, laying the groundwork for long-term sustainability. Meanwhile, national banks increased their capitalization, and growth in the insurance sector outpaced GDP – expanding the capacity to mobilize domestic financial resources.

Ongoing Issues and Areas for Improvement

However, several challenges remain. A significant share of government spending is still managed outside the state budget – through extra-budgetary funds and state-owned enterprises. Despite consolidation efforts in 2020, nearly one-third of public expenditures remain off-budget. This weakens spending efficiency and accountability. Full incorporation of all such expenditures into the formal budget system is necessary.

Tax and customs incentives require regular evaluation. Some have become outdated or fail to deliver expected outcomes. These should be phased out, and resources reallocated to more productive areas. Customs benefits, in particular, must be tightly controlled to prevent abuse. Otherwise, local producers may face unfair competition.

Uzbekistan's insurance market remains small, and the country's total financial assets account for only a small share of GDP. In developed countries, financial assets often exceed GDP several times over. To raise this indicator, the government must enhance financial literacy and develop voluntary pension and investment funds.

While external public debt remains at a relatively safe level, its rapid growth has significantly increased debt servicing costs. In 2024, interest payments on external debt rose by 33%, reaching \$805 million. This adds pressure to the budget and highlights the need to finance only high-impact projects through external borrowing. Furthermore, the pace of debt accumulation should remain aligned with economic growth rates.

Lastly, there is a lack of transparency in the liabilities of state-owned enterprises and the banking system. These so-called quasi-fiscal obligations must be accounted for within the framework of public debt to ensure fiscal clarity.

International Experience in Public Financial Resource Management

Countries around the world have demonstrated how effective and prudent use of public financial resources can lead to long-term economic stability and resilience. Various models offer valuable lessons for Uzbekistan as it continues its economic reforms and institutional strengthening.

1. National Reserve Funds and Economic Stabilization

One of the most prominent examples comes from Kazakhstan, which established its National Fund in the early 2000s to manage revenues from natural resources, particularly oil. This fund functions as a fiscal buffer, accumulating surplus revenues during boom periods and supporting the national budget during times of crisis or downturn. By the end of 2024, the assets of Kazakhstan's National Fund had reached \$62.7 billion, amounting to 22% of the country's GDP, highlighting its role as a critical safeguard for macroeconomic stability and fiscal discipline.

Similarly, Norway has successfully adopted a long-term savings strategy by channeling all its oil revenues into a sovereign wealth fund — the Government Pension Fund Global. This fund is not only designed to benefit future generations but also serves to shield the national budget from the cyclical risks of commodity price fluctuations. The Norwegian model exemplifies how sovereign wealth funds can act as insurance mechanisms that uphold economic stability and intergenerational equity.

Establishing such reserve mechanisms helps countries stabilize public spending, smoothen cyclical fiscal fluctuations, and reduce dependency on volatile revenue sources. For resource-rich countries like Uzbekistan, which are seeking to balance growth with fiscal responsibility, these models offer strategic insights (16–19).

2. Targeted Tax and Customs Incentives for Industrial Growth

The experience of rapidly industrializing nations demonstrates the importance of smartly structured tax and customs incentives. For instance, the People's Republic of China leveraged Special Economic Zones (SEZs) to attract substantial volumes of foreign direct investment (FDI) starting in the 1980s. These zones offered a package of incentives — including reduced corporate tax rates, customs exemptions, and streamlined regulatory procedures. The city of Shenzhen, one of China's first SEZs, is a landmark example: by offering significantly lowered taxes and trade facilitation, it transformed into a global manufacturing hub, creating millions of jobs and securing consistent foreign exchange revenues through exports.

Vietnam presents another case of success in recent decades. Over the past twenty years, it has aggressively pursued an investor-friendly policy environment. By 2024, Vietnam's economy was growing at approximately 7% annually, with FDI inflows surpassing \$25 billion each year. Much of this success can be attributed to long-term political stability, a competitive labor market, and an effective system of tax holidays and industrial infrastructure in SEZs. These measures have enabled Vietnam to achieve a persistent trade surplus and position itself as a leading exporter in electronics, garments, and machinery.

Another compelling case is Singapore, a small city-state that rapidly evolved into a high-income, innovation-driven economy. By implementing a highly competitive tax regime and investing public funds into productive sectors, Singapore created a business-friendly environment. Low corporate tax rates, minimal red tape, and zero-tolerance for corruption attracted a steady inflow of FDI. As a result, the country now ranks among the world's top economies in terms of GDP per capita and ease of doing business. These experiences demonstrate the importance of aligning tax policy with national development goals while maintaining investor confidence (16–19).

3. Public Debt Management and Fiscal Discipline

Many developed and emerging countries have institutionalized fiscal rules to ensure sustainable debt levels and mitigate macroeconomic risks. In the European Union, member states are required to adhere to the so-called Maastricht Criteria, which mandate that government debt should not exceed 60% of GDP. This rule-based framework is aimed at maintaining fiscal sustainability within the Eurozone and preventing systemic crises.

South Korea is another instructive example. Following the 1997–1998 Asian Financial Crisis, Korea adopted a prudent approach to managing its external debt. The government focused on building strong foreign exchange reserves, which now exceed \$400 billion, providing resilience against global financial shocks. Furthermore, South Korea has kept its public debt relatively low — around 40–50% of GDP — and ensured parliamentary oversight over budgetary decisions. These actions have fostered a culture of fiscal discipline and helped safeguard the country from external vulnerabilities (20–23).

Such experiences underscore the importance of responsible borrowing, debt transparency, and effective oversight. Uzbekistan, which is currently scaling up infrastructure investment through external financing, could benefit from adopting similar fiscal responsibility frameworks to ensure that debt remains within safe and manageable thresholds.

4. Insurance and Pension Fund Development

Developed nations have also demonstrated the crucial role of private insurance companies and pension funds in mobilizing long-term financial resources and supporting domestic investment. For instance, in countries like the United States, United Kingdom, and Japan, pension funds and insurance firms hold vast portfolios of financial assets, often exceeding national GDP multiple times over.

In the United Kingdom, financial institutions' total assets are several times larger than the country's GDP, reflecting a high level of household savings that are systematically converted into investments in the real economy. The financial infrastructure allows capital to flow efficiently into sectors such as housing, energy, and innovation.

Japan's Government Pension Investment Fund (GPIF) stands as one of the world's largest institutional investors. As of 2021, the GPIF managed over \$1.7 trillion in assets. It strategically invests in both domestic bonds and equities, supporting the Japanese financial markets while ensuring long-term returns for retirees. This model shows how pension institutions can contribute to the depth and liquidity of local capital markets, all while building a reliable resource base for future social spending.

For Uzbekistan, which is still developing its insurance and pension sectors, these global best practices offer concrete ideas for reform. Enhancing financial literacy, incentivizing long-term savings, and expanding the legal and regulatory framework for private insurance and pension institutions could play a transformative role. These measures would not only strengthen social protection systems but also provide a steady pool of domestic capital for infrastructure and innovation (22–25).

4. Conclusion

Between 2016 and 2024, Uzbekistan underwent a wide range of ambitious and comprehensive reforms across various domains of public financial policy, with the overarching objective of revitalizing the economy and ensuring its long-term stability. A central pillar of these reforms was the effective management and rational use of public financial resources. Other critical areas of focus included strengthening the budgetary system, simplifying the tax and customs regimes, and improving the investment climate.

1. Strengthening Budget Institutions and Enhancing Fiscal Transparency

Significant institutional changes were introduced to improve the functioning of the state budget system. Measures were taken to increase the efficiency and targeting of budget expenditures, strengthen parliamentary and public oversight, and digitize budget

processes to enhance transparency. A landmark development in this regard was the adoption of the Law on the State Budget (Law No. ORQ-704) in 2021, which laid the foundation for modern fiscal governance. This law introduced mechanisms aimed at improving the legal basis of budget management and ensuring the purposeful allocation of public funds.

Digitization played a major role in modernizing budgetary operations, allowing for real-time monitoring of expenditures and greater public access to fiscal data. These developments contributed to higher levels of accountability and efficiency in the allocation and use of public funds.

2. Tax Reform and Improved Business Environment

Uzbekistan also implemented deep reforms in its tax policy, which contributed to an improved business environment and a more prominent role for the private sector in the national economy. A unified tax rate system was introduced, replacing the previously complex and multilayered framework. Simultaneously, the government launched a review of existing tax exemptions and incentives. Those incentives that failed to deliver tangible economic benefits, or were based on preferential treatment without clear justification, were gradually phased out.

The objective was to maintain only those tax privileges that promote innovation, competitiveness, and investment activity. In doing so, Uzbekistan has moved towards a more neutral, transparent, and predictable tax regime that supports sustainable economic development.

3. Modernization of Customs and Trade Facilitation

The customs system also underwent significant transformation. Tariff schedules were simplified, and import-export procedures were largely automated. The introduction of electronic customs systems, the "Single Window" mechanism, and the use of intelligent cargo tracking technologies helped streamline cross-border trade. These reforms led to a substantial increase in foreign trade turnover, diversification of trade partners, and further integration of Uzbekistan into the regional and global logistics landscape. Today, the country is steadily positioning itself as one of the key logistics hubs in Central Asia.

4. Improving the Investment Climate

To stimulate both domestic and foreign investment, the government introduced numerous facilitative measures. The creation of a "Single Investment Window" simplified administrative procedures for investors and reduced bureaucratic hurdles. At the same time, legal guarantees for the protection of investor rights were enhanced through new legislation.

As a result, the volume of foreign direct investment (FDI) increased substantially. New industrial, energy, and infrastructure projects were launched across the country, which led to the creation of new jobs and strengthened the country's export potential, especially in non-commodity sectors.

5. Financial Market Development and Institutional Expansion

In the financial sector, reforms were initiated to modernize the pension and insurance systems and expand access to financial services. One of the key goals was to improve the transparency and financial sustainability of the pension fund while encouraging voluntary private pension contributions. At the same time, new types of insurance — both corporate and personal — were introduced to broaden the sector and better align with the needs of citizens and businesses.

These reforms are laying the groundwork for building a more dynamic, diversified financial market that can serve as a source of long-term investment capital for the national economy.

6. Prudent Management of External Debt

Uzbekistan adopted a balanced and responsible approach to public debt management. Since 2021, legislative limits have been imposed on the level of external debt, including a cap to ensure that it does not exceed 60% of GDP. This policy reflects the government's commitment to preserving debt sustainability and avoiding excessive fiscal risks.

Borrowed funds have been directed mainly toward financing strategic infrastructure projects in sectors such as transportation, energy, and healthcare, which are expected to generate long-term social and economic returns. These investments are instrumental in reducing regional disparities, improving connectivity, and enhancing the overall quality of life for citizens.

Key Recommendations for the Future

Despite the significant progress achieved, several important tasks remain in order to consolidate the results of reforms and ensure the long-term sustainability of Uzbekistan's economic transformation. The following policy directions are recommended:

1. Deepen Budget Oversight and Integrate Extra-Budgetary Funds

There is a growing need for comprehensive assessment and independent audit of budget expenditures to ensure efficiency and effectiveness. Moreover, to achieve full transparency in the flow of public finances, extra-budgetary funds and special purpose accounts should be fully integrated into the national budgetary system. This would allow for more coherent financial planning and eliminate duplications or inefficiencies in resource allocation.

2. Ensure a Fair and Stable Tax Policy

To sustain fiscal revenues while supporting economic growth, the tax system must remain stable, predictable, and fair. It is essential to continue distributing the tax burden equitably, promote small business development, and encourage innovative activity. Furthermore, the government should establish a system for evaluating the effectiveness of tax incentives to ensure that they are granted based on evidence and clearly defined economic criteria.

A well-calibrated incentive regime — targeted, time-bound, and performance-based — can help attract high-quality investment while avoiding distortions in market competition.

3. Strengthen Debt Sustainability Through Public Oversight

As the government continues to engage with global financial markets, it is crucial to introduce performance indicators for external loans and enhance oversight mechanisms. The public and parliament should be given greater access to data on borrowing terms, usage of funds, and expected outcomes. This will help maintain public debt at a safe and sustainable level, reduce fiscal risks, and promote better governance.

Additionally, improving the country's sovereign credit rating through sound macroeconomic policies and institutional reforms will facilitate deeper integration into global capital markets and lower borrowing costs.

4. Expand Domestic Financial Markets

Efforts must continue to deepen and diversify Uzbekistan's domestic financial markets. This includes supporting the development of capital markets, increasing the volume of publicly traded securities, and encouraging the participation of pension and insurance funds in the financial system. Introducing financial education programs to improve public understanding of savings, investments, and risk management will also be critical.

By creating a robust domestic investor base, Uzbekistan can reduce dependence on foreign capital and ensure more stable sources of financing for long-term development goals.

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