THE STATE'S FISCAL POLICY AND ITS PRIORITY DIRECTIONS IN ENSURING ECONOMIC STABILITY

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ABSTRACT

This article analyzes the role and significance of the state's fiscal policy in ensuring economic stability. In a market economy, the government's fiscal, budgetary, and tax policies are considered crucial factors for supporting economic growth, controlling inflation, and improving the investment climate. The study highlights the main priority directions of fiscal policy, including strengthening budgetary stability, maintaining public debt at an optimal level, simplifying the tax system, and promoting investments in the real sector of the economy. In addition, financial reforms being implemented in Uzbekistan, their impact on economic stability, and the effectiveness of cooperation with international financial institutions are analyzed. As a result, the theoretical and practical aspects of ensuring macroeconomic stability through strategic planning of state fiscal policy are substantiated.

Keywords: economic stability, fiscal policy, budgetary stability, tax system, public debt, investments, macroeconomic balance, financial reforms, economic growth.

INTRODUCTION

In a market economy, ensuring economic stability is one of the key strategic goals of every state. A stable economic environment is a critical factor determining a country's social welfare, investment attractiveness, and competitiveness in the international arena. In recent years, global economic instability, geopolitical risks, and financial crises have posed new challenges for governments. From this perspective, for Uzbekistan, it is particularly important to scientifically shape and effectively implement fiscal policy to strengthen economic stability.

The relevance of this topic lies in the fact that ensuring economic stability requires strategic planning of state fiscal policy, efficient use of resources, and deepening of financial reforms. At the same time, it is necessary to expand cooperation with international financial institutions, manage public debt optimally, and support the private sector to develop the real sector of the economy. Research conducted on this basis provides scientific and practical recommendations for further improving Uzbekistan's fiscal policy, thereby enhancing the significance of this study.

Analysis and results

The state's fiscal policy — encompassing fiscal measures (budgetary and tax policy), public debt management, and planning of public expenditures — serves as a tool for ensuring macroeconomic stability. This policy aims to achieve three main objectives: (1) maintaining macroeconomic balance (controlling inflation and managing aggregate demand), (2) directing investments toward infrastructure and social services to support growth, and (3) mitigating economic risks (such as financial crises and external shocks). In theory, the effectiveness of fiscal policy depends on the targeting of policy instruments, budgetary discipline, and the level of transparency.

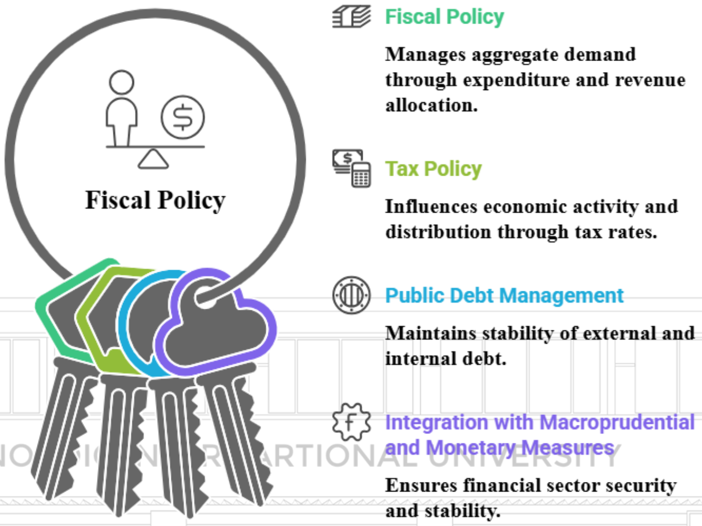

Figure 1. Fiscal policy instruments and their functions.

The infographic “Fiscal Policy Instruments and Their Functions” is symbolically represented through a key-ring diagram, where the central ring is shown as the main tool for ensuring financial stability and economic growth. Four colored keys hang from it: the green key “Budgetary Policy” represents stimulating or restraining economic activity through government spending and taxation; the yellow key “Tax Policy” represents managing budget deficits by balancing revenues and expenditures; the blue key “Public Debt Management” represents ensuring financial stability through effective management of government debt; and the purple key “Macroprudential Integration” represents monitoring the stability of the financial system and mitigating risks. These instruments are interconnected, performing complex functions such as regulating the economic cycle, controlling inflation, and supporting long-term growth, thereby visually revealing the integrated mechanism of fiscal policy.

Priority areas of fiscal policy

✓ Strengthening budgetary stability: Targeted optimization of structural expenditures, efficiency of social spending, and adherence to constitutional budgetary constraints. Uzbekistan has outlined its tax and budget priorities for 2025, aiming to improve tax administration and consistently reduce the tax burden.

✓ Simplifying the tax system and promoting investments: It is necessary to implement simplified tax regimes, measures supporting exports, and create a competitive tax environment. Uzbekistan’s 2025 package includes elements for reforming tax administration.

✓ Development of the state financial sector and financial markets: Modernizing state assets and enhancing market coordination through privatization. For example, initiatives to list the National Investment Fund's assets on international markets could attract investment flows.

✓ International financial cooperation and resource mobilization: Financing infrastructure and institutional reforms continues through projects and loans with institutions such as the World Bank and IMF.

Practical Situation and Trends in Uzbekistan (Based on Recent Updates)

In recent years, the Uzbek economy has demonstrated relatively high growth rates; IMF and World Bank reports note both growth and the stability of reserves, although they also highlight the presence of inflationary pressures and external risks. During 2024–2025, measures such as the revision of energy prices and other transitional steps have increased inflationary pressure, prompting the central bank to strengthen monetary measures. The IMF's 2025 assessment indicates real GDP growth and inflation levels for Uzbekistan, underscoring the need for coordinated policy actions.

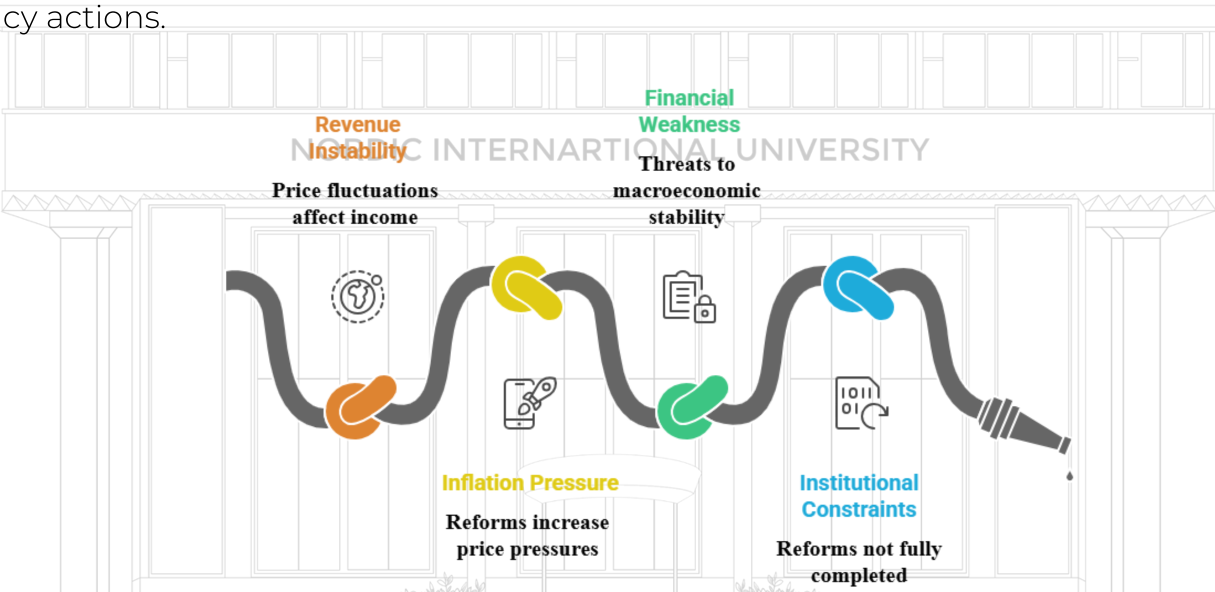

Figure 2. Problems hindering economic stability.

In the implementation of state financial policy, the first major risk is the volatility of revenues. Uzbekistan's economy remains partially dependent on the export of oil, gas, cotton, and precious metals, meaning that fluctuations in global prices for these resources directly affect budget revenues. Therefore, measures such as diversifying revenue sources, expanding tax revenues, and promoting domestic production are crucial to ensuring policy continuity. On the other hand, risks related to inflation and monetary stability also exist: energy and price reforms may temporarily increase price pressures, which can put additional strain on the central bank's monetary policy.

The second significant risk is related to the weakness of the financial sector and institutional constraints. Insufficient capital in the banking system, rising levels of non-performing loans (NPLs), and inadequate risk monitoring pose threats to macroeconomic stability. At the same time, tax administration and the efficiency of government spending have not yet been fully optimized. This reduces the effectiveness of financial policy implementation and consistently hinders economic growth. Therefore, mitigating financial risks requires institutional reforms, strengthening oversight mechanisms, and planning budgetary and tax policies in a more transparent and results-oriented manner.

CONCLUSION

State financial policy is a central tool for ensuring economic stability, and its effectiveness depends on budgetary discipline, rational tax policy, responsible management of public debt, and a strengthened financial sector. In Uzbekistan, recent tax and budget reforms, cooperation with international financial institutions, and initiatives to marketize state assets are positive factors. However, inflationary pressures, risks in the financial sector, and external vulnerabilities require continuous policy adjustments. If the above measures are implemented, financial policy can play a key role in ensuring Uzbekistan's long-term macroeconomic stability and economic growth.

Offers

✓ Enhance the efficiency of budget expenditures by implementing public expenditure reviews and performance-based budgeting.

✓ Improve tax compliance and reduce administrative burden through expanded tax administration reforms and digitalization.

✓ Strengthen public debt management strategies by diversifying the debt portfolio, increasing long-term instruments, and reducing currency risk.

✓ Implement risk-based supervision and bank capitalization in the financial sector, while strengthening mechanisms to resolve non-performing loans (NPLs).

Continue cooperation with international financial institutions and attract private investment through effective management of state assets (e.g., marketizing assets via UzNIF).

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