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STATE BUDGET AND ECONOMIC GROWTH IN UZBEKISTAN: RECENT TRENDS, FISCAL CONSOLIDATION, AND DEVELOPMENT IMPLICATIONS

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Abstract. This article examines the relationship between the state budget and economic growth in Uzbekistan, with a focus on the most recent officially available macroeconomic and fiscal data. The study uses a descriptive-analytical approach based on official statistics, government budget documents, and international institutional assessments. The analysis shows that Uzbekistan maintained relatively strong economic growth in 2024 despite inflationary pressure, energy price adjustments, and the need for fiscal consolidation. According to official statistics, the country’s real GDP grew by 6.5% in 2024, while nominal GDP reached 1,454,573.9 billion soums. Sectoral decomposition indicates that services and industry were the main drivers of growth. At the same time, budget policy remained expansionary in social and developmental areas, although the fiscal deficit narrowed compared with 2023. International assessments suggest that fiscal consolidation is expected to continue in 2025–2026, while economic growth remains robust. The article argues that the relationship between budget policy and growth in Uzbekistan is not determined only by the size of public spending, but by its composition, macroeconomic discipline, and the efficiency of public resource allocation. The findings support the view that disciplined but development-oriented fiscal policy can help maintain high growth in a transforming economy.

Keywords: Uzbekistan, state budget, economic growth, fiscal policy, budget deficit, public expenditure, fiscal consolidation

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1. Introduction

The relationship between the state budget and economic growth remains one of the central issues in public finance and development economics. In developing and transition economies, budget policy is not limited to balancing revenues and expenditures; it also serves as a strategic instrument for social protection, infrastructure development, industrial modernization, regional support, and macroeconomic stabilization. For a country like Uzbekistan, which is simultaneously pursuing structural reforms, social commitments, and high growth ambitions, the quality of fiscal policy is especially important.

In recent years, Uzbekistan has demonstrated stable macroeconomic expansion while continuing reforms in taxation, public administration, energy pricing, and budget transparency. However, strong growth alone does not automatically prove that fiscal policy is efficient. What matters more is whether public spending supports productivity, whether deficits remain sustainable, and whether budget resources are directed toward sectors with high long-run developmental returns. Therefore, studying the interaction between the state budget and economic growth is both theoretically relevant and practically necessary for evaluating the country's current developmentmodel.

This article analyzes the recent dynamics of Uzbekistan's economic growth and state budget performance using the latest available data. The main objective is to identify how budget policy has interacted with growth outcomes and what policy implications emerge for the medium term. The study gives particular attention to three issues: first, the macroeconomic performance of Uzbekistan in 2024; second, the changing structure of budget revenues, expenditures, and deficits; and third, the developmental implications of fiscal consolidation under conditions of continued economic expansion.

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2. Literature Review and Conceptual Background

Theoretical and empirical literature offers different explanations for the relationship between fiscal policy and economic growth. In Keynesian analysis, public expenditures can stimulate aggregate demand, increase investment activity, and support employment, especially in periods of underutilized capacity. By contrast, neoclassical and fiscal-conservative approaches emphasize that excessive public spending and persistent deficits may crowd out private investment, worsen inflationary pressure, and weaken long-run efficiency if expenditures are poorly targeted. As a result, the growth effect of the budget depends not only on volume, but on timing, quality, and composition.

Comparative empirical evidence also suggests that different categories of public expenditure have different growth effects. Research summarized in MPRA's study by Benos shows that infrastructure-related expenditures and spending associated with public order and institutional quality tend to have positive effects on growth, while distortionary taxation tends to reduce growth performance. The same study further indicates that the impact of education and social expenditures may become stronger when country-specific conditions, institutional quality, and income levels are taken into account. This is important for Uzbekistan, where social and capital expenditures are both central to the state budget.

For Uzbekistan specifically, Akmal and Fayzullokh's study on government budget expenditures and economic growth found a positive and statistically significant relationship between public spending and GDP using quarterly data from 2000 to 2020. Their results suggested that a 1% increase in government budget expenditures corresponded to a 0.50% increase in GDP, while GDP growth also fed back into higher budget expenditures, supporting both Keynesian reasoning and Wagner's Law. This finding is particularly useful because it frames Uzbekistan's fiscal-growth nexus as bidirectional: the budget influences growth, and growth expands the fiscal base. Taken

together, the literature implies that the key policy question is not whether the state budget matters for growth—it clearly does—but rather what kind of budget supports sustainable growth. For reforming economies, growth-enhancing fiscal policy generally requires three conditions: disciplined deficits, productive expenditure composition, and institutional capacity to implement the budget effectively. These conditions provide the conceptual framework for evaluating recent developments in Uzbekistan.

3. Data and Methodology

This study applies a descriptive and analytical methodology based on the most recent official and institutional sources. The empirical base of the article consists of four main groups of materials: official GDP data from the Statistics Agency of Uzbekistan, fiscal and strategic policy materials from the Ministry of Economy and Finance, macro-fiscal assessments from the Asian Development Bank, and selected scholarly literature on fiscal policy and growth. The use of multiple sources allows cross-checking of recent trends and improves analytical reliability.

The method is primarily based on trend analysis, ratio comparison, and policy interpretation. Instead of estimating a new econometric model, this article uses the latest available statistical evidence to evaluate how changes in budget indicators correspond to recent economic growth performance. This approach is appropriate because the user's requested focus is on current, policy-relevant, and statistically grounded interpretation rather than on long historical modeling.

Table 1

Selected macro-fiscal indicators for Uzbekistan

Indicator	2023	2024	2025 (forecast)	2026 (forecast)
Real GDP growth (%)	6.3	6.5	6.6	6.7
Inflation (%)	10.0	9.4	8.0	7.0
Fiscal deficit (% of GDP)	5.5	5.0	4.0	4.0
Revenue (% of GDP)	30.1	30.5	30.5	30.5
Expenditure (% of GDP)	35.6	35.5	34.5	34.5

Compiled from ADB data and official statistical materials.

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4. Economic Growth Performance in Uzbekistan

According to the official statistics of Uzbekistan, real GDP increased by 6.5% in 2024, while GDP at current prices reached 1,454,573.9 billion soums. In US dollar terms, nominal GDP amounted to approximately 114.962 billion dollars. This confirms that Uzbekistan remained one of the faster-growing economies in the broader region, despite external uncertainty and domestic price adjustments. GDP per capita also increased in real terms by 4.4%, indicating that growth was not purely nominal.

The sectoral structure of growth is especially revealing for the fiscal-growth debate. In 2024, the service sector made the largest contribution to GDP growth, adding 3.3 percentage points, while industry contributed 1.7 percentage points. Agriculture, forestry, and fisheries added 0.6 percentage points, and construction contributed another 0.6 points. In terms of structural shares, services rose from 46.2% to 47.4% of GDP, while industry increased from 25.3% to 26.4%. By contrast, agriculture declined from 21.2% to 19.2% of GDP, and construction fell slightly from 7.3% to 7.0%. This suggests that Uzbekistan's growth is increasingly driven by services and industrial expansion rather than by agriculture alone.

ADB's assessment supports this picture and notes that growth in 2024 was underpinned by industrial expansion, services, investment, and robust domestic demand. Construction grew by 8.8%, services by 7.7%, industry by 6.8%, and agriculture by 3.6% according to the institutional assessment. Moreover, remittances reportedly surged by around 30% in 2024, helping sustain household demand and private consumption. These dynamics imply that the budget's influence on growth operated in a broader macroeconomic environment where public spending, private demand, and structural transformation were mutually reinforcing.

At the same time, the 2024 growth structure also reveals a policy challenge. A sizable share of growth came from domestic-demand-sensitive sectors, especially services and construction, which means that macroeconomic discipline remains

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essential. If budget policy becomes excessively expansionary without productivity gains, demand-led growth could intensify inflation or weaken fiscal sustainability. Therefore, the strong 2024 outcome should not be interpreted as proof that any increase in expenditure is beneficial; rather, it shows that growth-supportive spending must be accompanied by fiscal management and structural reform.

5. State Budget Dynamics and Fiscal Consolidation

The budget side of the story is equally important. According to ADB, Uzbekistan's fiscal deficit narrowed from 5.5% of GDP in 2023 to an estimated 5.0% in 2024. Over the same period, revenue increased from 30.1% to 30.5% of GDP, while expenditure moderated only slightly from 35.6% to 35.5% of GDP. This indicates that fiscal consolidation did occur, but it was gradual rather than abrupt. In other words, Uzbekistan reduced the deficit without severely compressing public expenditures.

This pattern is significant from a developmental perspective. A sharp reduction in expenditure may protect the budget balance in the short run, but it can also undermine public investment, social commitments, and growth-supporting reforms. Uzbekistan appears to have chosen a more balanced path: moderate consolidation combined with continued public sector involvement in development. This approach is consistent with the needs of a transition economy where infrastructure upgrading, social spending, and institutional reforms still require strong fiscal support.

The official fiscal strategy for 2025–2027 further confirms the direction of policy. Ministry materials indicate that the government aims to keep the consolidated budget deficit at no more than 3% of GDP, maintain public debt below 50% of GDP, and preserve the social orientation of public expenditure. This is an important signal: fiscal authorities are not targeting consolidation for its own sake, but are trying to combine debt discipline with social and developmental priorities.

ADB's forward-looking assessment is broadly consistent with this strategic orientation. It projects that the fiscal deficit will narrow further to 4.0% of GDP in both

2025 and 2026, while public expenditure declines to 34.5% of GDP and revenue remains stable at 30.5% of GDP. Inflation is expected to decelerate from 9.4% in 2024 to 8.0% in 2025 and 7.0% in 2026. This suggests that fiscal consolidation is expected to coexist with continued growth, not with recession. That is especially relevant for policy debates in developing economies, where consolidation is often criticized as inherently contractionary.

An important nuance, however, is that not all deficit measures are identical across institutions. International organizations may use different definitions—such as consolidated government deficit, overall fiscal deficit, or broader public sector balance—depending on methodology. For that reason, the analytical focus should remain on direction and sustainability rather than on isolated numerical comparisons. The common conclusion across institutional assessments is that Uzbekistan is moving toward tighter fiscal discipline while still maintaining robust growth momentum.

6. How the State Budget Supports Economic Growth

The available evidence suggests at least four channels through which the state budget affects economic growth in Uzbekistan.

First, the budget supports aggregate demand through public wages, transfers, procurement, and investment. In a rapidly transforming economy, such expenditures help sustain consumption, employment, and business turnover. The literature on Uzbekistan also supports this channel. Akmal and Fayzullokh found that increases in government budget expenditures were positively associated with GDP growth over the long run. This confirms that fiscal policy in Uzbekistan has historically had a measurable macroeconomic effect.

Second, the budget influences growth through expenditure composition. International empirical studies show that infrastructure and institutional expenditures are often more growth-enhancing than generalized or poorly targeted current spending. For Uzbekistan, this means that the developmental impact of the budget depends

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heavily on whether resources go to transport, energy modernization, public services, digitalization, education quality, and productivity-enhancing reforms. Growth is more likely to remain durable when expenditure supports productive capacity rather than only short-term demand.

Third, fiscal policy can strengthen growth by improving macroeconomic credibility. Investors, lenders, and businesses respond not only to current spending levels, but also to expectations about inflation, taxation, debt, and exchange-rate stability. When the government narrows deficits in an orderly manner and clarifies medium-term fiscal targets, it reduces uncertainty and supports investment planning. In this respect, the fiscal strategy for 2025–2027 may itself be growth-supportive, because predictability is an economic asset.

Fourth, the budget shapes long-run inclusiveness. Growth that is not accompanied by social expenditure, human capital investment, and territorial balance may become unstable or unequal. Uzbekistan's policy documents repeatedly emphasize the social orientation of budget expenditures. If this orientation is paired with efficiency, monitoring, and prioritization, it can reduce social vulnerability while also supporting labor productivity and domestic demand over the medium term.

7. Risks and Policy Challenges

Despite the overall positive picture, several risks remain. One challenge is expenditure efficiency. High spending does not automatically generate high growth if project selection, implementation quality, and monitoring are weak. The budget can support growth only when expenditures are productive and leakages are minimized. This issue is especially important in economies where state-led investment still plays a major role.

A second risk concerns inflation and administered price adjustments, especially in the energy sector. ADB notes that inflation in services surged after increases in electricity and natural gas prices, even though overall inflation declined. This means

that fiscal reform and tariff reform must be synchronized carefully. If cost pressures rise too quickly, household welfare and business margins can weaken, reducing part of the growth effect generated by budget policy.

A third challenge is the size of the non-observed economy. Official statistics indicate that the informal and shadow economy accounted for 34.8% of total GDP in 2024. A large non-observed economy weakens revenue collection, complicates expenditure targeting, and reduces the transparency of the fiscal-growth relationship. Expanding formalization would therefore strengthen both budget performance and the quality of growth.

Finally, medium-term sustainability depends on whether fiscal consolidation is accompanied by structural change. If deficit reduction comes only from temporary restraint while underlying expenditure inefficiencies persist, gains may not be durable. By contrast, if consolidation is combined with better tax administration, better targeting of subsidies, stronger public investment management, and higher-return spending, Uzbekistan may achieve a more resilient growth model.

Conclusion

The analysis demonstrates that Uzbekistan’s recent experience does not support a simplistic opposition between fiscal discipline and economic growth. In 2024, the country achieved 6.5% real GDP growth while beginning to narrow the fiscal deficit. At the same time, sectoral and structural data show that growth was broad-based, with strong contributions from services and industry. International projections indicate that growth may remain robust in 2025–2026 even as the fiscal stance becomes more disciplined.

The main conclusion of the article is that the growth effect of Uzbekistan’s state budget depends less on the absolute expansion of expenditure and more on fiscal composition, efficiency, and credibility. A development-oriented budget can support growth when it protects productive spending, preserves social priorities, and maintains

macroeconomic sustainability. This is especially relevant for Uzbekistan, where structural transformation still requires active public policy.

Therefore, future fiscal policy in Uzbekistan should focus on three priorities: improving expenditure efficiency, preserving growth-enhancing and socially valuable spending, and maintaining transparent medium-term deficit and debt targets. If these priorities are respected, the state budget can continue to function not merely as an accounting document, but as a strategic mechanism of sustainable economic growth.

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