

IN UZBEKISTAN INDIRECTLY TAXES CORRECTION DOING : SOCIAL PROTECTION AND BUDGET SUSTAINABILITY BALANCE

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Abstract: The study provides an in-depth analysis of the relationship between the principles of macroeconomic stability and social justice in the reform of the indirect tax system in the Republic of Uzbekistan. The study examines the impact of reducing the value-added tax (VAT) rate, expanding excise tax objects, and digitizing tax administration on the composition of budget revenues based on data for the last three years (2022–2024) and strategic forecasts until 2026. The regressive nature of indirect taxes and their impact on the consumer basket of low-income groups of the population are assessed from the point of view of the effectiveness of the social protection system. The report presents scientifically based recommendations for maintaining the budget deficit at 3 percent of GDP and increasing the targeting of social spending, as well as modern econometric models for forecasting tax revenues.

Keywords: Value Added Tax, Excise Tax, Budget Sustainability, Social Protection, Fiscal Policy, Digitalization, Shadow Economy, WTO Membership, Regression, Tax Administration, GDP, Fiscal Strategy, Poverty Reduction, Gini Index.

Introduction

The modern stage of development of the Uzbek economy is characterized by fundamental changes in the management of public finances. The ambitious economic goals set within the framework of the "Uzbekistan - 2030" strategy, including increasing GDP to 160 billion \$ and increasing per capita income to more than \$ 4 thousand, require a stable and fair tax system. In this process, indirect taxes - value added tax (VAT), excise taxes and customs duties - are emerging as the main fiscal

instruments, forming almost half of the state budget revenues.¹ In recent years, the Uzbek government has taken bold steps to reduce the tax burden and improve the business environment. The central point of these reforms is the reduction of the VAT rate from 15 percent to 12 percent starting in 2023. However, reducing rates risks reducing budget revenues, which in turn may create difficulties in financing social spending. Maintaining a balance between budget sustainability and social protection is an urgent task, especially in the context of global economic fluctuations, regional geopolitical crises, and inflationary pressures. Indirect taxes, by their economic nature, are consumption-oriented and affect all segments of the population through the price mechanism. The regressive nature of these taxes, i.e., low-income families paying more in taxes than their budget, can lead to social inequality. Therefore, the reforms being implemented in Uzbekistan must be aimed not only at fiscal efficiency, but also at social justice. The prospects of joining the World Trade Organization (WTO) by 2026 and the need to equalize excise rates in accordance with international standards further increase the importance of this analysis.² This report comprehensively examines the theoretical foundations of indirect tax reform, the real situation in Uzbekistan, the digital transformation of tax administration and their impact on the well-being of the population. The main hypothesis of the study is that reducing the shadow economy and expanding the tax base by reducing rates in indirect tax reform is the most effective way to ensure budget sustainability.

Analysis of literature on the topic

According to classical economic theory, consumption taxes have a less negative impact on savings and investments than income taxes. However, modern research also highlights their distributional imbalances. The idea of "Progressive VAT", put forward by experts from the International Monetary Fund (IMF), is seen as an innovative solution to this problem. According to this model, the state should apply a single and broad-based VAT rate for all goods, but refund the amount of tax paid by low-income groups in real time (for example, through digital wallets). This method allows you to abandon the complex system of benefits and simplify tax administration.³ Among the Uzbek scientists, Juraev studied the role of tax control in preventing tax violations and fiscal stability. In her opinion, tax crime not only reduces budget revenues, but also creates an unequal competitive environment for honest entrepreneurs. Tegetaeva, on the other hand, evaluates the excise tax as a tool for controlling the social consumption

¹ Ministry of Economy and Finance of the Republic of Uzbekistan. (2024). Budget for 2025. https://api.mf.uz/media/filestore/Budjetnoma_2025_BmO2cnx.pdf

² Gazeta.uz. (2025, December 18). The Senate of Uzbekistan approves the law on the 2026 state budget. <https://www.gazeta.uz/en/2025/12/18/budget-2026-uzbekistan/>

³ International Monetary Fund. (2024). IMF Working Paper WP/24/78. <https://www.imf.org/-/media/files/publications/wp/2024/english/wpiea2024078-print-pdf.pdf>

structure of society. Her views are reflected in the policy of introducing excise taxes on sugary drinks and harmful products in Uzbekistan today. Researchers such as Troyanskaya and Troyansky draw attention to the inflationary nature of indirect taxes. According to their conclusion, since indirect taxes are an integral part of the price of goods, any increase in their rates is directly reflected in the consumer price index. In the conditions of Uzbekistan, the reduction in the VAT rate in 2023 played an important role in curbing inflation, but the liberalization of energy tariffs partially offset this positive effect.

The issue of taxation of the digital economy has also become central in recent years. Research within the framework of the OECD BEPS (Base Erosion and Profit Shifting) project aims to improve the fair distribution of profits of transnational companies and the mechanisms for collecting indirect taxes in the country of consumption. Uzbekistan's participation in this project is a new stage in harmonizing the national tax system with global standards.⁴

Research methodology

This study uses a systematic and comparative approach to analyze the tax system in Uzbekistan. The methodological basis of the study is as follows:

- **Macroeconomic dynamic analysis** : The relationship between state budget execution, GDP growth rates, and inflation rates for 2022–2024 was studied.
- **Fiscal forecasting methodology** : Econometric models used to determine tax revenues were used. In particular, formulas that include consumption volume, growth rate, and effective tax rate parameters were analyzed when calculating VAT and excise tax revenues.
- **Quantitative and qualitative analysis** : Indicators such as social protection system coverage, poverty rate, and Gini index were examined in the context of tax reforms based on World Bank and national statistical data.
- **Scenario modeling** : The impact of changes in tax policy in 2026 (e.g., increasing e-commerce taxes, equalizing excise taxes) on budget revenues was assessed based on various economic scenarios.

Main part problem analysis and results

The role of indirect taxes in the fiscal system and the dynamics of stability

The Republic of Uzbekistan for 2026–2028, the main goal of fiscal policy is to expand the revenue base while maintaining macroeconomic stability. Indirect taxes will serve as a "safety cushion" in this process. The reduction in the VAT rate to 12 percent in 2023 allowed the economy to leave about 14 trillion soums at the disposal

⁴Organization for Economic Cooperation and Development. (2023, June 9). Uzbekistan joins the Inclusive Framework on BEPS and participates in the agreement to address the tax challenges arising from the digitalization of the economy.

of entrepreneurs, which contributed to the growth of private investment. The main macroeconomic and budgetary indicators for 2026 are forecast as follows:⁵

Indicator name	Forecast for 2026
Economic growth (GDP)	6.6%
Inflation rate	Not higher than 7.0%
Consolidated budget revenues	515.8 trillion soums
Consolidated budget expenditures	567 trillion soums
Budget deficit (relative to GDP)	3.0%
Public debt limit (relative to GDP)	50.0%

These data indicate that the government is striving to maintain strict fiscal discipline. Budget revenues are expected to be around 26 percent of GDP. The role of indirect taxes is increasing not only in revenue collection, but also in strengthening local budgets. In particular, starting from 2026, 5 percent of VAT revenues will be allocated to the budgets of the city of Tashkent, and 20 percent to the budgets of the regions and Karakalpakstan. This is a new mechanism for stimulating economic activity at the regional level .

VAT reforms and the strategy of "cleaning up" the tax base

In Uzbekistan is related to optimizing benefits and creating an efficient tax base. A number of important changes are expected to come into effect from 2026:

1. **Jewelry sector : VAT exemptions** on the sale of precious metals and jewelry will be abolished. This step is in line with the concept of "luxury taxes" and brings the high-income consumer segment under fiscal coverage.
2. **Agriculture** : In order to ensure food security, a zero-rate VAT rate will be introduced for agricultural producers. This measure will help reduce production costs in the agricultural sector and increase export potential.
3. **Digital Economy** : The corporate tax rate for e-commerce (marketplaces and online stores) will be increased from 10 percent to 15 percent, and the turnover tax will be increased from 3 percent to 4 percent. This is part of a strategy to equalize the tax burden between traditional retail and e-commerce.

The role of AI (artificial intelligence) and automated systems in tax administration is growing significantly. Starting from 2026, a system for real-time analysis of electronic invoices will be introduced. This system will assign a risk level (low, medium , high) to each invoice. Most importantly, VAT accounting for "high-risk" invoices will be allowed only after the tax has been paid by the supplier . These measures are aimed at significantly reducing the share of the shadow economy .

⁵ Ministry of Economy and Finance of the Republic of Uzbekistan. (2024). Budget for 2025. https://api.mf.uz/media/filestore/Budjetnoma_2025_BmO2cnx.pdf

Excise Tax: Social Health and WTO Integration

excise tax policy reflect Uzbekistan's international obligations and domestic social priorities. Equalization of excise rates for imported and domestic goods is one of the main conditions for joining the World Trade Organization (WTO).

Tax rates and their purpose for 2026:

Product type	2026 rate/change	Purpose and consequence
Alcoholic products	48,000 soums (for 1 liter of absolute alcohol)	Equalization of import and domestic rates (WTO requirement)
Sugary drinks	500 – 535 soums (per 1 l, depending on the amount of sugar)	Protecting public health, combating obesity
Potato chips	15,000 soums (per 1 kg)	Promoting healthy eating
Tobacco products	Indexation to 7% and abolition of the ad-valorem rate	Reducing consumption and simplifying administration
Energy resources	Indexation by 7% (gasoline, diesel, gas)	Reducing budget subsidies and moving to market prices

Seen from this table, the excise tax performs not only a fiscal, but also a "regulatory" (Pigovian tax) function. In particular, the application of a progressive rate depending on the amount of sugar forces manufacturers to reduce the amount of sugar in their products. Also, the increase in excise duties on petroleum products is consistent with a long-term strategy to increase energy efficiency and transition to a "green economy".

The problem of regressivity of social protection and indirect taxes

The biggest drawback of indirect taxes is that they burden the poorest segments of the population more. Although the poverty rate in Uzbekistan has decreased from 17.0 percent in 2021 to 11.0 percent in 2023, social inequality (Gini index) has increased from 31.2 to 34.5. This means that the benefits of economic growth are not being distributed equally among all segments of society. To mitigate this imbalance, the state is significantly increasing social spending. In 2026, 54.7 percent of total budget expenditures (220 trillion soums) will be directed to the social sphere.

New approaches in the social protection system:

- **Social insurance** : From 2026, maternity and temporary disability benefits will be paid through the Social Insurance Fund (3.4 trillion soums allocated).
- **Targeted assistance** : Fiscal losses resulting from the VAT rate reduction are being offset by expanding social benefits and poverty reduction programs.
- **Housing** : The allocation of 15 trillion soums for mortgages and subsidies is aimed at improving the living conditions of low-income families.

the self-employed and small entrepreneurs as part of the tax reform are also noteworthy. The abolition of the tax exemption for the self-employed with an income of up to 100 million soums and the introduction of a 1 percent turnover tax for individual entrepreneurs are the next step in the legalization of the economy. This will expand the social protection base (through pensions and insurance contributions) in the long term.

Analysis of budget sustainability and external fiscal risks

Uzbekistan's fiscal stability remains largely dependent on external factors and commodity prices. A record increase in gold prices helped double the Central Bank's reserves and create a fiscal buffer. However, keeping the budget deficit within 3 percent requires improving the efficiency of public spending. The main fiscal risk is the growth of external debt and the cost of its repayment. A firm target of no more than 50 percent of public debt to GDP by 2026 has been set. A limit of \$5 billion in external borrowing has been set to finance the budget deficit, half of which will be directly allocated to investment projects. Stability in the banking system also indirectly affects budget revenues. The growth of the loan portfolio by 20.5 percent in 2024 and the decrease in the share of state-owned banks to 68.8 percent indicate a revival of the private sector. This, in turn, ensures the stability of revenues from corporate profits and turnover taxes.

Conclusion and suggestions

The process of indirect tax reform in Uzbekistan is aimed at finding a delicate balance between ensuring macroeconomic stability and social welfare. The reduction of the VAT rate to 12 percent and the digitalization of tax administration have created a solid foundation for reducing the shadow economy and expanding the tax base. However, analysis shows that much more needs to be done to mitigate the regressive nature of the tax system and reduce income inequality.

Based on the research results, the following strategic recommendations are put forward:

1. **Deepening fiscal decentralization:** It is necessary to gradually increase the share of VAT revenues retained in local budgets. This will encourage local authorities to reduce "hidden" turnover and support entrepreneurship in their territories.
2. **Expanding the targeted cashback system:** Based on IMF recommendations, it is necessary to fully implement the mechanism for real-time VAT refunds on basic consumer goods for low-income groups (bottom 20-40 percent). This will not only ensure social justice, but also increase the share of digital payments.

3. **Integrate excise policy with healthcare:** Part of the excise revenue from harmful products (sugar, tobacco, alcohol) should be directed to directly finance specialized medical centers (diabetes, oncology, cardiology) . This increases the social significance of the "pay for harm" principle.
4. **Using AI models in tax forecasting:** It is proposed to move away from purely statistical extrapolation when planning tax revenues and instead introduce models based on neural networks that take into account consumer behavior and inflationary expectations.
5. **Protection of local producers in the context of WTO membership:** To ensure that the competitiveness of local producers does not decrease as a result of equalization of excise rates, it is advisable to provide them with tax credits and subsidies for the introduction of energy-efficient technologies.

In conclusion, Uzbekistan's tax and budget policy is aimed at long-term stability, in which indirect taxes should serve not only as a source of revenue, but also as an effective lever for regulating socio-economic processes.

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