

IMPROVING THE MECHANISM FOR FORMING LOCAL BUDGET REVENUES IN UZBEKISTAN

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Abstract: In the current conditions of globalization and economic integration, improving the mechanism for forming local budget revenues in Uzbekistan is considered a key factor in ensuring regional financial independence and promoting sustainable socio-economic development. This article provides a deep analysis of the existing problems of fiscal centralization and proposes ways to expand the tax base, optimize the transfer system, and introduce digital management elements based on international experience. The research findings contribute to reducing fiscal imbalances between regions by increasing the financial responsibility of local authorities and enhancing the overall efficiency of the state financial system.

Keywords: local budget revenues, fiscal decentralization, tax base expansion, transfer system, regional financial independence, land and property tax, economic reforms, international experience, digitalization mechanisms, fiscal equalization, regional development potential, public participation.

Introduction

In the complex conditions of modern economy, the efficiency of the state financial system has become one of the main factors determining the overall sustainable development of the country. Especially in Uzbekistan, within the framework of large-scale reforms being implemented, the mechanisms for forming local budget revenues play a decisive role in fully utilizing the economic potential of regions and increasing the welfare of the population. This process not only requires optimizing the distribution of resources between central and local levels but also is directed towards encouraging the financial initiative of regional authorities through the development of social infrastructure. At the same time, globalization processes are strengthening the need to study international experience in ensuring the stability of local budgets, as these experiences provide opportunities for adapting tax systems and transfer mechanisms. As a result, the strengthening of the local revenue base increases the financial independence of regions and helps to mitigate disparities in economic development. Such an approach fully aligns with the fiscal federalism concept in economic theory and corresponds to Uzbekistan's national strategy.

The centralized budget system formed during the years of independence in the Republic of Uzbekistan has limited the sources of local revenues, but the reforms in the last decade have been aimed at changing this situation. In particular, measures such as fully assigning land tax and property tax to local budgets, leaving a certain portion of personal income tax at the disposal of regions, have expanded the possibilities for managing financial resources at the local level. However, the unevenness of the tax base across regions and the high share of transfers still persist, which strengthens financial dependence in provinces with lower economic activity. In this regard, deeply analyzing existing mechanisms and developing new models adapted to national conditions becomes an urgent task. In addition, introducing digital technologies increases the transparency of budget processes and helps reduce corruption risks. These changes not only elevate the responsibility of local authorities but also contribute to strengthening tax discipline among the population. Overall, the problems highlighted in the introduction phase further reveal the strategic importance of forming local budget revenues.

Scientific research shows that in developed countries, local budget revenues are mainly formed at the expense of taxes tied to the region, which allows for the effective application of fiscal equalization mechanisms. In Uzbekistan, this process has not yet fully developed, and economic disparities between regions limit the opportunities for revenue formation. For example, tax revenues are high in Tashkent city and developed provinces, while transfers dominate in others. Therefore, it is necessary to create models specific to Uzbekistan's unique conditions by studying international experience. This approach not only ensures financial stability but also helps transition to a new stage of regional development. Moreover, strengthening public participation encourages efficient use of budget resources. Such a comprehensive approach further enhances the scientific and practical significance of the topic.

Main Part

The mechanisms for forming local budget revenues occupy a central place in Uzbekistan's state financial system, as they serve as the main source for financing the socio-economic needs of regions. The efficiency of this process depends on the strength of the tax base and the flexibility of the transfer system, and in the current system, these elements have not yet been sufficiently improved. In particular, the centralized approach over many years has reduced the interest of local bodies in expanding revenue sources, resulting in increased fiscal imbalances between regions. At the same time, recent reforms are trying to mitigate this situation by transferring land and property taxes to the local level, but the incomplete accounting of the tax base preserves the problem. Studies confirm that the growth of local revenues is directly

linked to the level of economic activity, which is more evident in developed regions. [1] In such a situation, introducing new mechanisms by adapting international experience to the national context gains important significance.

The theory of fiscal federalism proposes dividing local budget revenues into three groups, namely own revenues, assigned revenues, and transfers. In Uzbekistan, the structure of these groups reflects regional differences, for example, the share of own revenues is high in Tashkent city, while transfers dominate in Surkhandarya province. This situation limits the financial responsibility of local authorities and weakens economic initiative. In this regard, it becomes necessary to create incentive mechanisms by expanding the right to set tax rates at the local level. International examples show that in Germany, leaving a share of personal income tax with municipalities has accelerated regional development. [2] A similar approach can be applied in Uzbekistan, but it must be accompanied by expanding the tax base. As a result, fiscal independence strengthens, and the efficiency of the overall budget system increases.

Analyses conducted across regions reveal the connection of local budget revenues with economic potential, as tax revenues are high in developed provinces, and a large part of their revenues is formed from own sources. Conversely, in regions with relatively low economic potential, the narrow tax base and low share of small business and industry increase the share of transfers. This situation deepens disparities in social infrastructure services and negatively affects the welfare of the population. Therefore, fully registering immovable property and determining its cadastral value based on market principles can significantly increase local revenues. Such measures not only expand the revenue base but also strengthen the financial independence of regional authorities. In international experience, a similar approach in Japan has led to comparable results. Adapting this experience in Uzbekistan can make fiscal equalization more effective. [3]

Fiscal reforms implemented in recent years are serving to strengthen local budget revenues, in particular, leaving a certain portion of personal income tax at the disposal of regions has accelerated this process. However, due to economic disparities between regions, the opportunities for revenue formation remain unequal. For example, in the first half of 2024, local budget revenues amounted to 57.0 trillion soums, with Tashkent city accounting for a large part of this indicator. This situation strengthens the need to improve the transfer system, as they should have an incentive character. [4] At the same time, digitizing budget processes increases transparency and ensures efficient management. Such changes encourage the economic activity of local bodies and strengthen tax discipline.

Deeply studying international experience serves as an important source for improving local budget mechanisms in Uzbekistan, as in the USA, property tax is the main source of local revenues. Adapting this experience to national conditions can allow for full accounting of land resources. In this regard, determining cadastral value based on market principles will help increase tax revenues. However, in this process, it is necessary to consider regional differences, as these changes may create additional burden in regions with low economic potential. Therefore, creating mechanisms to strengthen fiscal incentives is important. As a result, local authorities will have the opportunity to retain additional revenues. Such an approach makes the overall fiscal policy more effective. [5]

The high share of transfers in local budget revenues maintains the passive state of regions, but it is possible to transform them into a form that encourages economic activity. For example, in the German experience, subsidies are determined in connection with increasing local revenues. In Uzbekistan, introducing a similar model can ensure efficient use of regional potential. At the same time, strengthening public participation increases the transparency of using budget resources. These measures strengthen the trust of taxpayers and expand the revenue base. Research results show that such mechanisms serve to increase fiscal independence. Overall, this process ensures transition to a new stage of regional development. [6]

Expanding the tax base is a priority direction in forming local budget revenues, and fully registering immovable property has a decisive significance in achieving this goal. In Uzbekistan, this process has not yet been fully completed, and in some regions, cadastral data is insufficient. Therefore, it is possible to improve accounting by introducing digital platforms. These measures increase tax revenues and strengthen the financial resources of local bodies. In international examples, a similar approach in South Korea has encouraged economic growth. [7] Adapting this experience in Uzbekistan can reduce regional disparities. As a result, the stability of local budgets is ensured.

Strengthening fiscal incentives plays an important role in increasing the economic initiative of local authorities, as mechanisms for retaining additional revenues elevate their responsibility. In Uzbekistan, reforms implemented in this direction are yielding positive results, but they need to be further deepened. For example, leaving a certain share of local taxes at the disposal of regions can accelerate this process. At the same time, improving the transfer system requires transforming them into an incentive form. Such changes ensure efficient use of regional economic potential. Studies confirm that these mechanisms mitigate fiscal inequality. Overall, this approach increases the overall efficiency of the state financial system. [8]

Strengthening public participation ensures efficient use of local budget revenues and strengthens tax discipline, as the population's activity in budget processes increases transparency. In Uzbekistan, introducing digital platforms in this direction has important significance, for example, through openly announcing budget data. [9] These measures strengthen the trust of the population and help expand the revenue base. In international experience, a similar approach in Scandinavian countries has increased social responsibility. Adapting this experience in Uzbekistan can accelerate regional development. As a result, the financial stability of local budgets is ensured.

Eliminating fiscal imbalances between regions is the main condition for improving local budget mechanisms, as this situation deepens disparities in the quality of social services. In Uzbekistan, to solve this problem, it is necessary to link the transfer system to economic activity. [10] For example, it is possible to transform redistribution from high-income regions to low-income ones into an incentive form. At the same time, expanding the tax base through developing industry and small business supports this process. Such an approach increases the use of regional potential. Research results show that these measures accelerate overall development.

Introducing digitalization mechanisms opens new opportunities in forming local budget revenues, as electronic accounting systems increase tax revenues and reduce corruption. In Uzbekistan, work being carried out in this direction is yielding positive results, but they need to be expanded. In particular, it is possible to fully cover the tax base through digital monitoring. Therefore, increasing the technological potential of local bodies is important. These measures improve revenue forecasting and ensure financial stability. Overall, digitalization makes fiscal policy more effective. [11]

Improving the mechanisms for forming local budget revenues is an important condition for regional development, and this process is considered as part of economic reforms in Uzbekistan. Measures being implemented in Uzbekistan are yielding positive results, but deeper institutional changes are necessary, taking into account disparities between regions. [12] For example, transforming the transfer system into an incentive form will help solve this problem. At the same time, it is possible to create national models by studying international experience. Such an approach increases the financial independence of local bodies. As a result, socio-economic progress transitions to a new stage.

Table-1.

Structure and Analysis of Local Budget Revenues in Uzbekistan Regions (Based on Average Indicators for 2020–2024, in Trillion Soums and Percentages)

Region	Share of Own Revenues (%)	Share of Transfers (%)	Total Revenue (trln soums)	Revenue Growth (%) (2020–2024)
Tashkent City	68	32	28.5	18.2
Samarkand Region	45	55	12.3	14.5
Tashkent Region	52	48	15.7	16.8
Namangan Region	38	62	9.8	12.3
Ferghana Region	42	58	11.2	13.9
Surkhandarya Region	35	65	8.4	11.7
Andijan Region	40	60	10.5	14.1
Bukhara Region	47	53	13.1	15.6
Kashkadarya Region	36	64	9.2	12.8

Source: Compiled based on data from the Ministry of Finance of the Republic of Uzbekistan and the Statistics Agency. The table provides a comprehensive analysis of regional disparities in local budget revenues, showing the impact of the tax base and transfers, and helps identify directions for improvement.

Conclusion

Improving the mechanism for forming local budget revenues in Uzbekistan is a key condition for regional development, and the fiscal reforms being implemented are yielding positive results, but deeper institutional changes are necessary, taking into account economic disparities between regions. This process ensures that local budgets have a stable revenue base, increases financial independence, and contributes to transitioning to a new stage of socio-economic progress. At the same time, adapting international experience to expand the tax base and transform the transfer system into an incentive form elevates the overall efficiency of the financial system. As a result, the economic potential of regions is more fully utilized, and the welfare of the population increases.

Based on the research findings, four main conclusions are formed: first, the unevenness of the tax base reduces the stability of local revenues and requires its expansion;

second, linking the transfer system to economic activity increases regional responsibility; third, digitalization mechanisms ensure the transparency of budget processes and enhance efficiency; fourth, public participation strengthens tax discipline and optimizes the use of resources. These conclusions confirm the scientific significance of the topic and serve as a basis for practical measures.

Recommendations

First recommendation: Expand the local tax base by 25-30 percent through re-evaluating the cadastral value of immovable property and land resources based on market principles, which will ensure revenue growth and strengthen fiscal independence.

Second recommendation: Introduce a mechanism for assigning 60 percent of personal income tax to local budgets, while implementing fiscal equalization by establishing incentive transfers from high-income regions to low-income ones.

Third recommendation: Create a fully digitized platform for local budget processes, enabling real-time monitoring of tax revenues and increasing forecasting accuracy by 40 percent.

Fourth recommendation: Introduce an incentive mechanism allowing regional authorities to retain 70 percent of additional revenues, which will increase economic initiative and be directed towards developing industry and small business.

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