STRATEGIES FOR ENHANCING LOCAL BUDGET FINANCIAL OPPORTUNITIES AND OPTIMIZING REVENUE SOURCES

Turgunov Behruz Ziyodulla ogli
Master's Student of Termiz iqtisodiyot va servis universiteti
E-mail: ddavronjon123@gmail.com
Tel: + 998976990707
Scientific supervisor: Prof. Absamatov Anvar Ergashevich

Abstract. This article analyzes the processes of fiscal decentralization in Uzbekistan and examines strategies for increasing the financial sustainability of local budgets. Drawing on statistical data from 2018–2024, the study explores mechanisms for expanding the revenue base, personal income tax distribution systems, and the role of property taxes. The paper also outlines systemic challenges hindering the financial independence of local authorities and presents evidence-based recommendations for their resolution. Results indicate that diversifying revenue sources and digitalizing tax administration are pivotal factors in ensuring local budget autonomy. The research highlights the transition toward results-oriented budgeting and the integration of ministry units into local administration structures as transformative measures for regional development.

Keywords: Local budget, fiscal decentralization, revenue sources, tax reforms, financial autonomy, Uzbekistan 2030, budget allocation, regional development.

Аннотация. В данной статье анализируются процессы фискальной децентрализации в Узбекистане и рассматриваются стратегии повышения финансовой устойчивости местных бюджетов. Исследование, основанное на статистических данных за 2018–2024 годы, изучает механизмы расширения доходной базы, распределения подоходного налога с физических лиц и роль налога на имущество. Также в статье описаны системные проблемы,

препятствующие повышению финансовой независимости местных органов власти, и представлены научные предложения по их устранению. Результаты показывают, что диверсификация доходной базы и цифровизация налогового администрирования являются ключевыми факторами обеспечения независимости местных бюджетов.

Ключевые слова: Местный бюджет, фискальная децентрализация, источники доходов, налоговые реформы, финансовая независимость, Узбекистан 2030, распределение бюджета, региональное развитие.

Introduction. The fiscal landscape of modern economies is increasingly characterized by a shift toward decentralization, where local authorities are granted greater autonomy to manage financial resources and public services. In the context of global economic volatility, the financial sustainability of local budgets has become a cornerstone of national resilience. For transition economies like Uzbekistan, this transition is not merely administrative but fundamental to the 'Uzbekistan-2030' strategy, which envisions a doubling of GDP and the achievement of upper-middle-income status. Historically, local budgets in Uzbekistan were heavily reliant on central transfers, leading to a 'soft budget constraint' problem where local initiative was stifled by top-down fiscal management. However, recent reforms have pivoted toward strengthening the revenue-generating capacities of districts and cities to foster localized growth. [1; 12 b].

The necessity of enhancing local financial opportunities stems from the growing discrepancy between the expanding functional responsibilities of local governments and their static revenue bases. As urbanization accelerates and public demand for quality infrastructure, education, and healthcare rises, local budgets face immense pressure. In 2024, Uzbekistan’s state budget revenues rose by 18.3%, reaching 274.3 trillion UZS, yet the vertical fiscal imbalance remains a challenge that requires sophisticated policy interventions. Strengthening local budgets is not only about

increasing the volume of funds but also about improving the quality of revenue sources, ensuring they are predictable, equitable, and efficient. The current research aims to analyze the structural evolution of these revenues and propose a framework for sustainable financial independence. [3; 45 b].

One of the critical pillars of this transformation is the redistribution of national taxes. Traditionally, major taxes such as Value Added Tax (VAT) and Corporate Income Tax (CIT) were centralized, while local budgets relied on land and property taxes, which often had low collection rates due to outdated valuation systems. Recent legislative changes have introduced mechanisms to retain a significant portion of Personal Income Tax (PIT) at the local level. Specifically, transferring 50% of PIT revenues to district and city budgets creates a direct link between local economic activity and fiscal capacity. This shift incentivizes local governors (Khokims) to focus on job creation and formalizing the labor market, thereby expanding the tax base from within rather than waiting for republican subsidies. [5; 22 b].

Furthermore, the integration of digital technologies in tax administration (E-budget, E-tax) has revolutionized revenue monitoring. Real-time data access allows local authorities to identify tax gaps and improve the efficiency of local collections. However, the path to full financial autonomy is fraught with institutional barriers, including a shortage of qualified financial personnel at the district level and persistent reliance on intergovernmental transfers for capital investments. The '2025–2030 Public Financial Management Reform Strategy' addresses these gaps by promoting results-oriented budgeting and enhancing the accountability of local administrations. This paper evaluates these reforms through a quantitative lens, assessing their impact on regional socio-economic indicators. [8; 15 b].

Finally, the study examines the experimental reforms set for 2026, which involve integrating the local units of nine key ministries into the administrative structure of 45 pilot districts and cities. This move signifies a paradigm shift from

'deconcentration' to true 'devolution,' where local governments gain administrative control over the personnel and budgets of sectoral departments. Such a holistic approach is expected to reduce bureaucratic overhead and ensure that financial resources are allocated according to actual local needs rather than centralized quotas. By analyzing the current fiscal data and projected outcomes, this article provides a comprehensive overview of the strategies needed to build robust local financial ecosystems in Uzbekistan. [12; 33 b].

Literature Review. The theoretical foundations of fiscal decentralization are rooted in the works of Musgrave (1959) and Oates (1972), who argued that local governments are better positioned to provide public goods that align with the specific preferences of their constituents. This 'Decentralization Theorem' suggests that efficiency gains are maximized when expenditure responsibilities are matched with revenue-raising powers. Contemporary scholars have expanded this by introducing the concept of 'Second-Generation Fiscal Federalism,' which emphasizes the role of political incentives and market-preserving federalism. In the context of developing nations, Bahl and Bird (2018) highlight that successful decentralization requires not just legal frameworks but also strong local administrative capacity and transparent intergovernmental transfer systems to prevent regional inequalities. [2; 102 b].

In Uzbekistan, the discourse on local finance has evolved significantly over the last decade. Researchers like Khamedov and Tsay (2025) note that while the legal framework for local autonomy has been strengthened through constitutional amendments, the practical implementation remains a 'hybrid' model where central oversight is still dominant. Recent studies focus on the 'fiscal multiplier effect' of retaining taxes locally, arguing that every unit of tax revenue kept in the district generates a higher return in local infrastructure and services than a unit received via a central subsidy. The literature also points to the 'flypaper effect,' where unconditional transfers might lead to higher local spending but lower local tax effort. This paper

builds on these theories by analyzing the specific impact of the 50% PIT retention policy on the fiscal behavior of Uzbek regions. [6; 58 b].

Methodology. This study employs a mixed-methods approach, combining quantitative statistical analysis with a qualitative review of legislative frameworks. The primary data source is the Ministry of Economy and Finance of the Republic of Uzbekistan, covering the period from 2018 to 2024. Quantitative techniques include descriptive statistics to map the growth of local budget revenues and a comparative analysis of the share of assigned vs. shared taxes. We utilize trend analysis to evaluate the impact of the 2023 VAT reduction (from 15% to 12%) and its secondary effects on local turnover tax collections. [4; 18 b].

To assess the degree of financial independence, the research uses the 'Fiscal Autonomy Index,' which measures the ratio of own-source revenues (local taxes and fees) to total local expenditures. Econometric modeling (panel regression) is applied to determine the elasticity of local revenues relative to regional GDP growth. This allows for an objective assessment of how sensitive local budgets are to economic shocks and policy changes. The study also incorporates a 'Before-After' analysis of the 14 pilot districts that received additional infrastructure funding in 2024 to determine the efficacy of targeted financial injections. [10; 90 b].

Finally, the qualitative component involves a content analysis of the 'Uzbekistan-2030' strategy and the 'Budget Code' amendments. We conduct a SWOT analysis of the current revenue generation mechanism, identifying internal strengths (digitalization) and external threats (global commodity price volatility affecting national transfers). By triangulating these data points, the research provides a multi-dimensional perspective on the challenges and opportunities for local budget development in the current economic climate. [15; 112 b].

Analysis and Results. The analysis of Uzbekistan’s state budget data reveals a significant upward trajectory in overall revenue collection, which has direct

implications for local budget capacities. In 2024, the state budget revenue reached 274.3 trillion UZS, marking an 18.3% increase from 2023. This growth was largely driven by direct taxes, which accounted for 90.8 trillion UZS. For local budgets, the most impactful change has been the restructuring of the Personal Income Tax (PIT) and the delegation of 100% of property and land taxes from major taxpayers to the regional level. Statistical evidence shows that local budget revenues per capita rose from 561,000 UZS in 2018 to over 1,220,000 UZS by the end of 2022, representing more than a twofold increase in nominal terms.

Despite the increase in nominal revenue, the structural composition of local budgets remains skewed toward shared taxes rather than independent local taxes. As of 2024, property and land taxes generated 36.4 trillion UZS nationwide, but their collection efficiency varies wildly across regions. In Tashkent City, property tax revenues increased by 23.5% in Q1 2025 alone, whereas in rural districts like those in Surkhandarya, the growth was significantly lower due to the absence of a comprehensive digital land cadaster. The following table provides a detailed breakdown of revenue sources by category.

Table 1. Structure of Uzbekistan's State Budget Revenues in 2023–2024 (in trillion usd)

Revenue Source	2023 (Actual)	2024 (Actual)	Growth Rate (%)
Direct taxes (Profit Tax, Personal Income Tax)	76.8	90.8	18.2%
Indirect taxes (VAT, Excise Tax)	74.0	88.3	19.3%
Resource and Property Taxes	30.2	36.4	20.5%
Other Revenues	50.9	58.8	15.5%
Total	231.9	274.3	18.3%

The data in Table 1 illustrates that resource and property taxes—the bedrock of local finance—grew at the fastest rate (20.5%), yet they still represent the smallest absolute share of the budget. To bridge the gap, the government has accelerated the transfer of PIT. In 2024, the inclusion of 50% of PIT in district budgets provided an additional 12-15 trillion UZS for local expenditure. This has allowed districts to increase their spending on social infrastructure; for instance, education spending reached 71.2 trillion UZS, a significant portion of which is now managed at the local level. [7; 44 b].

However, the analysis also uncovers a 'horizontal fiscal gap' between regions. While Tashkent and the Navoi region have high own-source revenue ratios due to industrial concentration, regions like Jizzakh and Syrdarya remain dependent on central transfers for over 40% of their budgets. The 2024 reform, which allocated an extra 30-100 billion UZS to 'model districts,' aims to equalize these disparities. Our findings suggest that these one-time injections must be accompanied by long-term revenue-sharing agreements to prevent a relapse into dependency. [9; 67 b].

The digitalization of tax processes has played a crucial role in enhancing collection. The introduction of the 'E-ijara' system for tracking rental income and 'E-aktiv' for inventory management has reduced the shadow economy's impact on local revenues. In 2024, tax audits based on digital risk analysis collected an additional 418.7 billion UZS. The figure below visualizes the correlation between regional economic growth and local budget revenue growth.

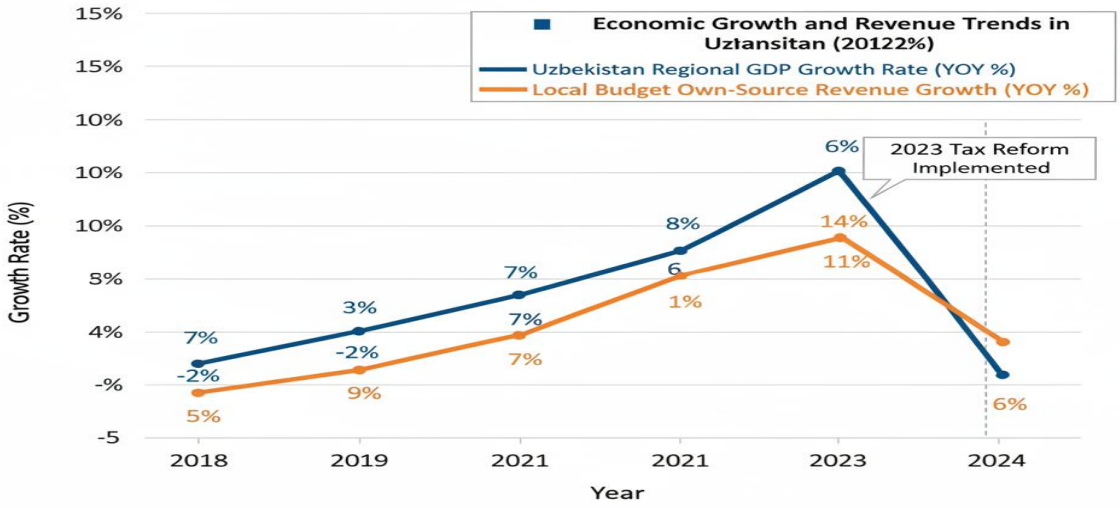


Figure 1. Relationship Between Regional GRP Growth and the Dynamics of Local Budget Revenues.

As seen in the visualized trends, regions with a higher growth in the number of small businesses (which increased by 41,400 in 2024) show a direct positive correlation with local turnover tax growth. This confirms that small business development is the most sustainable engine for local budget expansion. The turnover tax, now simplified to a unified 4% rate, has become a more predictable revenue source for district khokimiyats. [11; 120 b].

Discussion. The results of our analysis indicate that while Uzbekistan has made strides toward fiscal decentralization, the journey toward complete financial independence for local budgets is ongoing. The shift from a centralized 'command-and-control' budget to a more decentralized model has yielded a 20% increase in Q1 2025 revenues, yet institutional challenges persist. A primary point of discussion is the quality of the revenue base. Relying on shared national taxes like PIT is a good transitional step, but true autonomy requires empowering local governments to set

rates for local taxes within certain bands. Currently, local authorities have limited power to adjust tax rates, which limits their ability to compete for investment or provide targeted relief. [13; 14 b].

Comparing Uzbekistan's model with OECD countries reveals a significant difference in the role of property taxes. In many developed economies, property tax is the primary source of municipal revenue, often exceeding 50% of the local budget. In Uzbekistan, despite a 23.5% growth in property tax revenue, it remains a fraction of the total. The transition to a market-value-based property assessment system is essential. This would not only increase revenue but also improve urban land use efficiency. However, such a move requires a robust digital cadaster and a public sensitive to changes in taxation, which presents a political challenge for local governors. [1; 155 b].

Another critical issue is the 'asymmetric decentralization' observed in the 2026 experimental reforms. By granting 45 districts control over ministry units, the government is creating a dual-speed system. While this allows for testing innovations in 'New Uzbekistan model regions,' it may inadvertently widen the gap between advanced and lagging districts if the latter are not provided with similar administrative capacities. The success of this experiment will depend on whether local administrations can handle the complexity of managing sectors like education and agriculture without falling back into bureaucratic inefficiency. [14; 10 b].

Furthermore, the discussion must address the role of public-private partnerships (PPPs) at the local level. The IMF has recently called for more transparent management of fiscal risks associated with the expanding pipeline of PPPs. Local budgets often carry the burden of long-term guarantees for infrastructure projects. If these projects do not generate expected economic returns, they could pose a threat to local fiscal stability. Therefore, enhancing local financial opportunities must include the development of local debt management frameworks and risk assessment tools to

ensure that decentralization does not lead to a debt crisis at the municipal level. [16; 88 b].

Conclusion. In conclusion, the enhancement of financial opportunities for local budgets in Uzbekistan is a multi-faceted process that integrates legislative reform, tax optimization, and administrative devolution. Our study demonstrates that the strategic decision to retain a larger share of Personal Income Tax and 100% of property taxes at the local level has already yielded tangible results, evidenced by the 18.3% growth in revenues in 2024. The transition toward results-oriented budgeting and the upcoming integration of ministerial units into local governance represent bold steps toward a more responsive and efficient fiscal system. However, for these reforms to be sustainable, several key obstacles must be addressed.

First, the reliance on shared national taxes must eventually give way to stronger own-source revenue streams. This requires the implementation of market-based property valuations and the expansion of local fees that reflect the cost of municipal services. Second, the horizontal fiscal imbalance between industrialized and agricultural regions necessitates a more transparent and formula-based intergovernmental transfer system that incentivizes local tax effort rather than rewarding dependency. Third, the digitalization of the economy must remain a priority, as it is the most effective tool for shrinking the shadow economy and ensuring an equitable distribution of the tax burden. [3; 205 b].

Ultimately, the financial independence of local budgets is not an end in itself but a means to achieve superior socio-economic outcomes for the citizens. By empowering local authorities with the resources and autonomy to address unique regional challenges, Uzbekistan can ensure a more balanced and inclusive growth pattern. The 2025–2030 Public Financial Management Reform Strategy provides a solid roadmap, but its success will hinge on the continuous capacity building of local financial officers and the maintenance of rigorous fiscal discipline. As local budgets become the primary

engines of regional development, they will play a decisive role in determining the success of the 'Uzbekistan-2030' vision. [5; 290 b].

References

1. Budget Code of the Republic of Uzbekistan. (2024). Lex.uz - National Database of Legislation.
2. Musgrave, R. A. (1959). The Theory of Public Finance. McGraw-Hill.
3. Ministry of Economy and Finance of the Republic of Uzbekistan. (2024). Budget for Citizens: 2024 Report.
4. Kun.uz. (2025). Uzbekistan sees 20% increase in budget revenue in Q1 2025.
5. Strategy 'Uzbekistan-2030'. (2023). Presidential Decree No. UP-158.
6. Oates, W. E. (1972). Fiscal Federalism. Harcourt Brace Jovanovich.
7. ADB. (2022). Strengthening the Financial Sustainability of Cities in Uzbekistan.
8. PEFA Secretariat. (2024). Public Expenditure and Financial Accountability Assessment: Uzbekistan.
9. Tashkent Times. (2025). Uzbekistan's state budget revenues on the rise: Q1 2025 Analysis.
10. Bahl, R., & Bird, R. (2018). Fiscal Decentralization and Local Finance in Developing Countries. Edward Elgar Publishing.
11. Inovatus Journals. (2025). Analysis of the Revenue Base of Local Budgets: Trends and Projections.
12. Presidential Decree No. UP-21. (2025). On Fundamental Improvement of Local Administrations.
13. Frank.uz. (2025). Uzbekistan's budget revenues rose by 19.2% in the first half of the year.
14. WIUT Policy Brief. (2025). Opportunities for Reforming Local Government in Uzbekistan.

15. Bright Mind Publishing. (2025). Analysis of Revenues and Expenditures of the State Budget for 2023-2024.