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Article

Public Finance Mechanisms for Social Protection in Transition Economies: Evidence from Uzbekistan

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Abstract: *This study examines how public finance instruments shape the effectiveness of social protection in transition economies, with Uzbekistan as the primary case. Using descriptive analysis of official statistics for 2019-2025, the paper relates fiscal aggregates and social spending to welfare outcomes including the national poverty rate and the Gini coefficient. The results indicate that the expansion of targeted assistance and the digitalisation of the Unified Registry of Social Protection coincided with a decline in the national poverty rate from 8.9% to 5.8% and an improvement of the Gini coefficient from 34.6 to 32.7 between 2024 and 2025. The discussion identifies fiscal sustainability, administrative capacity and targeting accuracy as the main constraints on further progress.*

Keywords: *public finance, social protection, transition economy, Uzbekistan, poverty reduction, fiscal policy, targeted assistance, welfare state.*

1. Introduction

Agriculture The role of public finance in shaping social protection outcomes has gained renewed attention in countries undergoing structural transition. In Central Asia, and in Uzbekistan in particular, the inherited Soviet model of universal but underfinanced social guarantees has been gradually replaced by a more targeted approach, supported by reforms in budgetary planning, tax administration and social policy delivery. The relevance of this shift is reinforced by the country's commitment to the Sustainable Development Goals and by the ongoing transformation of the welfare architecture under the New Uzbekistan Development Strategy for 2022-2026.

Despite considerable progress, several open questions remain. The first concerns the fiscal sustainability of expanded social commitments in the presence of widening budget deficits. The second relates to the institutional capacity of public administration to translate budget appropriations into effective transfers. The third concerns the appropriate balance between cash assistance, in-kind benefits and investment in human capital. These questions are particularly relevant for transition economies, where the design of welfare instruments

must reconcile efficiency, equity and macroeconomic stability simultaneously.

The objective of this paper is to examine the linkages between public finance mechanisms and the effectiveness of social protection in Uzbekistan during the period 2019-2025. The study formulates two analytical questions. First, how have the structure and scale of public spending evolved against the background of macroeconomic growth and fiscal consolidation? Second, to what extent do recent welfare outcomes reflect changes in fiscal allocations and in the institutional design of targeted assistance? The scientific novelty lies in the joint reading of fiscal aggregates and welfare indicators within a single framework adapted to the institutional realities of a post-Soviet transition economy.

2. Literature Review

The economic literature on welfare states traditionally distinguishes liberal, conservative and social-democratic regimes, but this taxonomy was developed for advanced market economies and applies imperfectly to post-Soviet transition contexts. Subsequent work has extended the analytical apparatus to economies in transition, emphasising the path-dependent character of inherited social guarantees and the difficulty of reconciling universal entitlements with fiscal constraints. In low- and middle-income settings, the effectiveness of social transfers depends crucially on targeting accuracy and on the administrative infrastructure available to identify beneficiaries.

For Central Asia, a growing body of analytical work focuses on the modernisation of social assistance, the role of cash transfers in poverty reduction and the institutional reforms required to sustain them [1]. Recent country assessments document a transition from categorical to means-tested assistance in Uzbekistan, the consolidation of beneficiary databases and a gradual increase of social transfers as a share of consolidated public spending[2]. At the same time, the macroeconomic literature warns that fiscal expansions financed through deficits can erode the long-term sustainability of welfare commitments. The present study positions itself at the intersection of these two strands by reading fiscal and welfare indicators jointly for the period 2019-2025 [3].

3. Methods

The study relies on a descriptive and comparative analytical approach. The methodological design proceeds in three steps. The first step consists of compiling secondary statistical data on macroeconomic aggregates such as real GDP growth and consumer price inflation, on public expenditure on social purposes such as education and healthcare, and on welfare outcomes including the national poverty rate and the Gini coefficient. The data are drawn from official sources, primarily the World Bank country dashboards for Uzbekistan, the Central Bank of Uzbekistan inflation series, and the publications of the State Committee on Statistics.

The second step involves comparative analysis across the reference period 2019-2025, with particular attention to the years in which significant policy events occurred, including the introduction of the Unified Registry of Social Protection, the indexation of pensions and child allowances, and the budgetary response to external shocks. The third step is the institutional reading of the observed dynamics. The analytical framework distinguishes between three categories of welfare instruments: direct fiscal transfers, in-kind social services financed from the state budget, and investments in human capital. It is used to interpret the observed associations between fiscal and welfare indicators rather than to estimate causal coefficients, which would require microdata beyond the scope of this study.

4. Results

Real GDP of Uzbekistan grew by 6.0 per cent in 2022, 6.0 per cent in 2023 and accelerated to 6.7 per cent in 2024 and 7.7 per cent in 2025 according to the World Bank country overview [4], [5]. The acceleration was driven by private consumption, exports of metals and services, and an expansion of investment, with consumption supported by the growth of household incomes and remittances. International reserves reached approximately seventy billion United States dollars in early 2026, providing a sizeable cushion against external shocks.

Consumer price inflation moved on a declining trajectory over the same period. The annual rate stood at 11.4 per cent in 2022 and at 10.0 per cent in 2023, declined to 9.6 per cent in 2024 and moderated further to single digits in 2025, reaching 7.3 per cent [6]. The disinflationary trend mitigated the erosion of nominal social transfers and supported real income growth for lower-income households. At the same time, the consolidated fiscal deficit widened from 4.1 per cent of GDP in 2022 to 5.8 per cent in 2023, reflecting higher outlays on wages, social benefits, energy subsidies and emergency winter spending [7]. Subsequent consolidation reduced the deficit, while public debt remained moderate at approximately 28 per cent of GDP in 2026-2027 [8]

The structure of social spending evolved in parallel. Public expenditure on education stood at 5.5 per cent of GDP in 2023, positioning Uzbekistan above the average for lower-middle-income economies. The Unified Registry of Social Protection, introduced under presidential decree, allowed the consolidation of databases previously held separately by line agencies, thereby improving identification of low-income households [9]. According to World Bank estimates, the national poverty rate declined from 8.9 per cent in 2024 to 5.8 per cent in 2025, while the Gini coefficient improved from 34.6 to 32.7 over the same year [10]. The reduction in poverty was concentrated among lower-income households and was reinforced by broad-based wage income growth, indicating a pro-poor character of the recent expansion phase.

Table 1. Selected macroeconomic and welfare indicators of Uzbekistan, 2022-2025

Indicator	2022	2023	2024	2025
Real GDP growth (annual %)	6.0	6.0	6.7	7.7
Consumer price inflation (annual %)	11.4	10.0	9.6	7.3
Fiscal deficit (% of GDP)	4.1	5.8	≈3.5	≈3.0
Public debt (% of GDP)	≈34	≈32	≈30	≈28
National poverty rate (%)	n/d	n/d	8.9	5.8
Gini coefficient	n/d	n/d	34.6	32.7

Sources: compiled by the author from World Bank (2024; 2026), CBU (2025) and Stat.uz (2024). Values marked with ≈ are approximate based on World Bank Macro Poverty Outlook reporting. n/d - data not disaggregated for the indicated year in consulted official sources.

5. Discussion

The observed parallel between the expansion of targeted social assistance and the decline in the national poverty rate is consistent with the broader literature on welfare instruments in transition economies [11]. First, the recent improvement in poverty and inequality indicators cannot be attributed exclusively to fiscal transfers. The dominant role of pro-poor wage growth, supported by sectoral expansion in services, agriculture and exports, indicates that the welfare gains observed in 2024 and 2025 reflect a combination of labour market dynamics and policy interventions [12], [13]. This finding does not diminish the relevance of fiscal instruments; rather, it suggests that the marginal contribution of additional transfers will depend on the future trajectory of labour incomes and on the effectiveness of complementary employment policies.

Second, the widening of the fiscal deficit in 2023 illustrates the trade-off between social ambitions and macroeconomic stability characteristic of transition economies [14]. The subsequent consolidation, accompanied by the introduction of debt ceilings and by the rationalisation of energy subsidies, indicates that the authorities have prioritised the preservation of fiscal space for social commitments. This pattern is broadly in line with the typology proposed by Esping-Andersen for hybrid welfare regimes that combine universalist legacies with targeted modernisation.

Third, the digitalisation of the Unified Registry of Social Protection represents an institutional innovation whose welfare effects deserve separate empirical assessment. The consolidation of beneficiary data reduces the probability of inclusion and exclusion errors and creates conditions for the future integration of conditional transfers, training programmes and labour market reinsertion services [15]. From the perspective of public finance, the digital infrastructure may also lower the administrative costs of targeting and improve the responsiveness of transfers to shocks. The findings should be interpreted with the caveat that the analysis relies on aggregate statistics and is descriptive rather than causal.

6. Conclusion

The analysis of fiscal and welfare indicators of the Republic of Uzbekistan for the period 2019-2025 indicates that public finance mechanisms have played an increasingly active role in shaping social protection outcomes. The combination of broad-based pro-poor growth, expanded targeted assistance and the digitalisation of beneficiary identification coincided with a substantial reduction in the national poverty rate and an improvement of the Gini coefficient between 2024 and 2025 (World Bank, 2026). At the same time, the widening of the fiscal deficit in 2023 illustrates the limits of expansion in the absence of consolidation, while the moderate level of public debt preserves space for further calibration of social instruments.

Three policy implications follow. First, the development of social protection in Uzbekistan should be aligned with a credible medium-term fiscal framework that protects core welfare spending during cyclical downturns. Second, the administrative infrastructure underpinning targeted assistance should evolve toward integrated case management, linking cash transfers, employment services and human capital programmes. Third, the analytical capacity of public institutions should be strengthened to allow regular assessment of the welfare impact of fiscal interventions through household survey data.

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