

**STATE BUDGET DEFICIT: STRUCTURAL CAUSES,
MACROECONOMIC IMPLICATIONS AND INTEGRATED SOLUTIONS**

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The state budget is considered the center of the financial system, and the balance in it is the main criterion for the economic security of the country. However, in modern world practice, almost all states operate in conditions of a certain level of budget deficit (deficit). A budget deficit is a state in which government spending exceeds its income .

The presence of scarcity is not always considered a negative phenomenon. If the deficit is financed by funding large infrastructure projects, education, and innovation, which are drivers of economic growth, it will pay for itself in the future by expanding the tax base. But if the deficit increases unreasonably to cover current consumption costs (hardware supply, inefficient subsidies) and becomes chronic, it leads the economy to a crisis, a dangerous increase in public debt and an inflation spiral .

In economics, the origin of budget deficits is divided into two groups according to their nature:

1. Cyclical deficit — occurs during an economic downturn (recession) as a result of a decrease in tax revenues and an automatic increase in social spending, such as unemployment benefits.

2. Structural (structural) deficit - forms as a result of the state's conscious fiscal policy (lowering tax rates or increasing spending), regardless of the economic cycle.

Fundamental causes of the shortage:

* Large public investments: Large investments in infrastructure, energy, and transport system modernization.

* Increased social burden: Increased spending on education, healthcare, and pensions in the context of population demographic growth.

* External economic shocks: A decline in the price of key export commodities in global markets or instability in financial markets.

The macroeconomic consequences of compensating for budget deficits are often explained through the "compression effect" (Crowding-out effect). If the government

begins to borrow large amounts (through bonds) from the domestic financial market to cover the deficit, the demand for money in the market increases and interest rates rise. As a result, loans for the private sector (entrepreneurs) become more expensive, and public investment crowds out private investment from the market.

In recent years, the consolidated budget deficit has remained at a certain level in Uzbekistan as part of active investment reforms and modernization of the energy sector. The table below analyzes the indicators for 2024–2026.

Table 1. State budget balance and deficit as a percentage of GDP

Indicators	2024 (Trln)	2025 (Trln)	2026 (Forecast)
Total budget revenues	210.2	239.2	263.7
Total budget expenditures	275.9	313.3	345.7
BUDGET BALANCE (Deficit)	-65.7	-74.1	-82.0
Ratio of deficit to GDP (%)	-4.5%	-3.8%	-3.0%

Source: Author's calculations based on data from the Ministry of Economy and Finance of the Republic of Uzbekistan.

Table analysis shows that although the absolute amount of deficit is increasing, its share of GDP (GDP) is projected to decrease from 4.5 percent in 2024 to a safe calculated 3.0 percent norm in 2026. This is the result of fiscal consolidation policies pursued by the government, namely optimizing subsidies and strengthening tax administration.

There are three main sources of financing budget deficits in international practice, each of which has its own economic risks:

This is the most dangerous method. Covering budget expenditures without increasing the volume of goods produced, simply by issuing additional money, leads to the depreciation of the national currency and hyperinflation. According to Uzbek legislation, the Central Bank is prohibited from directly lending to cover the budget deficit.

Raising funds through international financial institutions (World Bank, IMF, ADB) and issuing international bonds (Eurobonds). This method does not put negative pressure on the domestic market, but it creates the risk of an increase in external debt and exchange rate fluctuations (currency risk).

Sale of government securities to commercial banks and the population on the domestic market. This is considered the safest and most inflation-free method, but, as mentioned above, it can limit private sector investment if used excessively.

To keep the budget deficit at a safe level and ensure macroeconomic stability, the following strategic measures should be taken:

1. Stricter fiscal rules (Fiscal Rules): to strictly maintain at the legislative level the procedure of not exceeding the upper limit of the consolidated budget deficit by more than 3% relative to GDP.

2. Improving the efficiency of public spending: Gradually eliminating all subsidies to unprofitable sectors and moving to market mechanisms.

3. Development of the domestic financial market: Reducing the share of external debt in deficit financing and activating the domestic securities market (suum bonds).

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