

THE IMPACT OF TAXES AND SUBSIDIES ON THE BEHAVIOR OF FIRMS AND CONSUMERS

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Abstract: The article examines the impact of tax and subsidy policies on the behavior of firms and consumers in Uzbekistan. It is shown how taxes, by increasing production costs, affect pricing, assortment and consumer choice, while subsidies stimulate investment, expand production opportunities and strengthen the purchasing power of the population. Examples of effective government support for individual industries are given, as well as its impact on labor market dynamics, citizens' incomes, and general trends in the country's economic development.

Keywords: tax burden, subsidiary policy, cost of production, economic activity, purchasing power, competitiveness.

Аннотация: В статье исследуется влияние налоговой и субсидиарной политики на поведение фирм и потребителей в Узбекистане. Показано, как налоги, увеличивая издержки производства, воздействуют на ценообразование, ассортимент и потребительский выбор, тогда как субсидии стимулируют инвестиции, расширяют производственные возможности и усиливают покупательскую способность населения. Приводятся примеры эффективной государственной поддержки отдельных отраслей, а также рассматривается её влияние на динамику рынка труда, доходы граждан и общие тенденции экономического развития страны.

Ключевые слова: налоговая нагрузка, субсидиарная политика, себестоимость, экономическая активность, покупательская способность, конкурентоспособность.

The modern economy of any country is based on the interaction of the state, business and the population. In Uzbekistan, where the economy is actively developing and reforming, tax and subsidy policy issues are becoming particularly important. On the one hand, the state forms the budget and regulates financial flows through taxes, and on the other hand, it supports strategic industries and the population through subsidies. These tools have a direct impact on the decisions of firms and consumers, forming the structure of production, the range of goods, prices and consumer preferences.

Taxation is a key instrument of economic regulation. It forms the state budget and simultaneously influences the behavior of firms and consumers, as it increases production costs and the cost of goods on the market. According to the Tax Committee of the Republic of Uzbekistan, in the first quarter of 2025, the largest amount of budget revenues was provided by corporate income tax – 11,826 billion soums, and a significant share was also accounted for by value-added tax (9,818 billion soums) and personal income tax (9,315 billion soums) (Fig. 1).

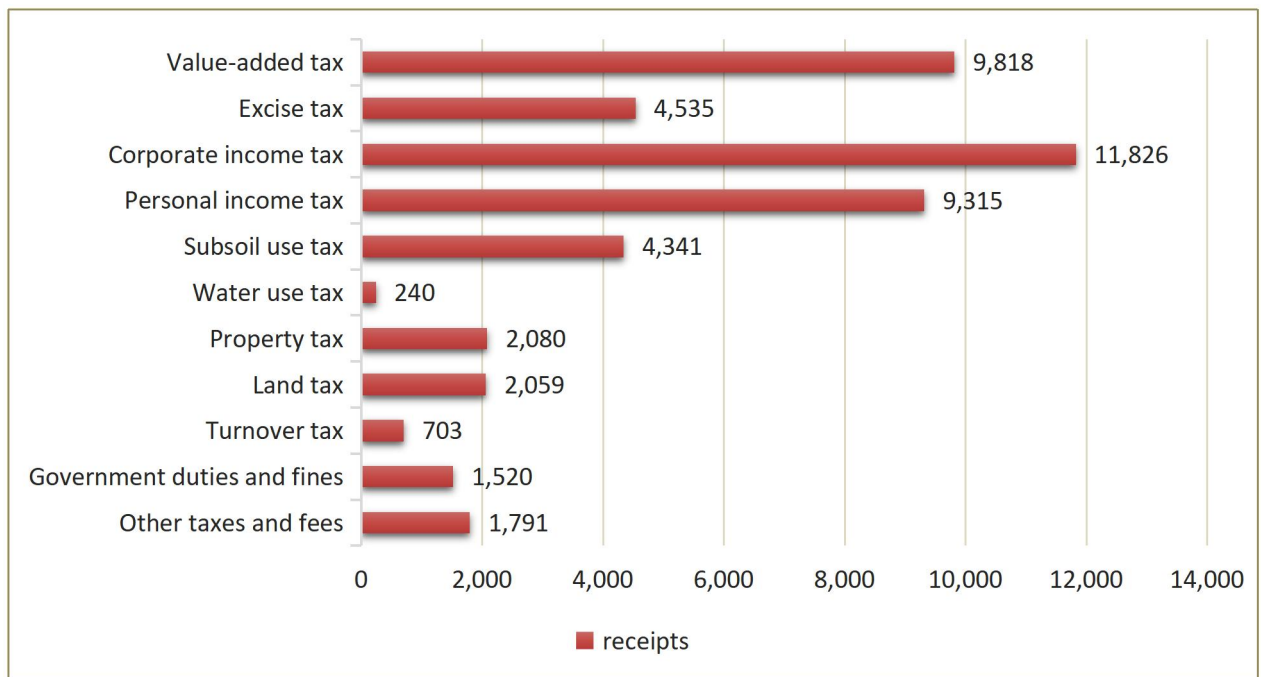


Fig. 1. Revenues to the budget of the Republic of Uzbekistan for the first quarter of 2025 by type of taxes (in billion soums).

For companies, taxes increase the cost of production. This can lead to higher prices for final goods, lower production volumes, and lower profits. Depending on the tax structure, firms may review their pricing strategy, reduce innovation costs, or introduce new technologies to improve efficiency.

From the consumer's point of view, an increase in taxes on goods or services affects consumer choice. If prices increase due to the tax burden, people limit spending on luxury goods, postpone major purchases, or choose cheaper alternatives. Thus, taxes create economic incentives and constraints, influencing the behavior of both producers and consumers.

Subsidies are financial support from the state aimed at stimulating production, reducing costs and supporting the population. In Uzbekistan, subsidies are actively used in the agro-industrial complex, industry, small and medium-sized businesses, as well as in socially significant sectors of the economy. In particular, according to the Ministry of Economy and Finance of the Republic of Uzbekistan, in January-June 2025, the authorities allocated subsidies totaling 14.95 trillion soums, which is 2.5% less than the same indicator for 2024. More than 8.9 trillion soums (-17.3%) were allocated to the energy sector, "socially significant subsidies" — 4.45 trillion soums (+51.1%) (Fig. 2).

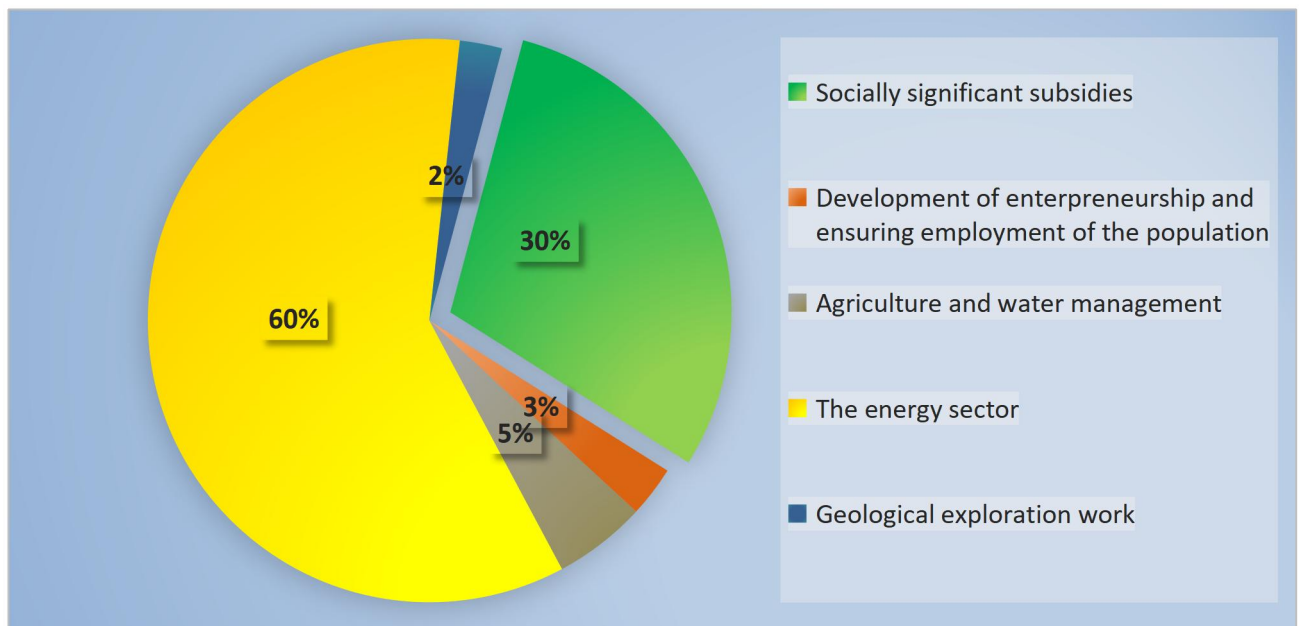


Fig. 2. The volume of subsidies allocated from the state budget of the Republic of Uzbekistan by industry for the first half of 2025.

For firms, subsidies reduce the cost of production and open up opportunities for business expansion, the introduction of new technologies and increased production volumes. This allows companies to remain competitive, lower product prices, and increase profits.

Subsidies increase the availability of goods and services for consumers. Government compensation programs for utilities, transportation, or basic necessities increase the real income of the population and stimulate demand. Thus, subsidies have a direct impact on the purchasing power of citizens and stimulate market activity.

In Uzbekistan, government support for various sectors of the economy demonstrates positive effects for producers and consumers. In agriculture, subsidies for seeds, fertilizers, and agricultural machinery help farmers increase yields and reduce costs. This means more affordable food prices for the population.

In industry, subsidies are aimed at modernizing production, introducing new technologies and increasing product competitiveness. Support for small and medium-sized businesses helps create jobs, develop innovative projects, and increase citizens' incomes.

These measures stimulate the labor market, increase household incomes and support economic activity, creating conditions for sustainable development of the region.

In Uzbekistan, government policy in the field of taxes and subsidies plays a key role in the development of the economy, but in practice there is a problem of the unbalanced impact of these instruments. On the one hand, the high tax burden on individual industries, especially small businesses and agriculture, reduces investment activity, slows down the expansion of production and limits opportunities for innovation. Firms are forced to cut costs, often sacrificing product quality or lowering workers' wages.

On the other hand, subsidies provided by the state do not always reach the companies or the population in need. Inefficient allocation of funds, lack of transparent control and focus on a narrow range of industries can lead to minimal incentive effect. As a result, economic entities do not receive sufficient support for development, which slows down production growth, limits job creation, and reduces the purchasing power of the population.

To overcome the imbalance between the tax burden and the effectiveness of subsidies in Uzbekistan, it is necessary to take a set of measures. First, tax policy optimization will reduce pressure on small businesses and strategic industries, while ensuring a fair contribution of large companies to the budget. Secondly, subsidies should be targeted and aimed at stimulating the most promising industries, as well as supporting socially vulnerable groups of the population.

Increasing transparency and control over the use of tax incentives and subsidies will reduce the risks of inefficient spending and strengthen the trust of businesses and citizens in government programs. In addition, stimulating innovation and modernization of production through tax incentives and investment subsidies will increase the competitiveness of companies and strengthen the country's economy as a whole.

Together, these measures will create a balanced system of taxes and subsidies that will simultaneously support business development, stimulate consumer demand and contribute to sustainable economic growth in the region.

In conclusion, it should be noted that taxes and subsidies are key economic policy instruments that influence the behavior of firms and consumers in Uzbekistan. The right combination of these tools makes it possible to stimulate investment, expand production, increase the purchasing power of the population and develop individual sectors of the economy.

An unbalanced tax and subsidy policy may limit economic growth, but with the optimization of the tax burden, targeted subsidies, transparency and the promotion of innovation, the region receives a sustainable development mechanism. Effective policy in this area is an important factor in the formation of a balanced and dynamic economy of the country, improving the quality of life of the population and increasing Uzbekistan's competitiveness in the global market.

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