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**TAX SYSTEMS OF COUNTRIES WITH TRANSITION ECONOMIES**

Umurzak Radjabov

Independent Researcher, Tashkent International University

Email: [umurzakradjabov8@gmail.com](mailto:umurzakradjabov8@gmail.com)

ORCID: <https://orcid.org/0009-0002-0614-7460>

**Abstract**

This article examines the formation and development features of tax systems in countries with transition economies. The study identifies the main criteria for classifying transition economies and analyzes the role of tax policy in economic transformation processes as well as the institutional development of tax administration. A comparative analysis of Central and Eastern European countries and CIS states highlights the main directions for modernization of tax systems. The research results provide theoretical and practical conclusions aimed at improving tax policy and ensuring fiscal sustainability in transition economies.

**Keywords:** Transition economy, tax system, economic transformation, tax policy, tax administration, fiscal sustainability.

**Аннотация:**

В статье исследуются особенности формирования и развития налоговых систем стран с переходной экономикой. Рассматриваются критерии отнесения государств к категории переходных экономик, роль налоговой политики в процессе экономической трансформации и институциональное развитие налогового администрирования. На основе сравнительного анализа стран Центральной и Восточной Европы, а также государств СНГ выявлены основные направления модернизации налоговых систем. Результаты исследования сформированы научные выводы и предложение по совершенствованию налоговой политики и обеспечению фискальной устойчивости в условиях экономического перехода.

**Ключевые слова:** переходная экономика, налоговая система, экономическая трансформация, налоговая политика, налоговое администрирование, фискальная устойчивость.

**Introduction**

As a result of the institutional changes observed in the world economy at the end of the 20th and beginning of the 21st centuries, states undergoing the transition from a centrally planned economy to market relations have formed as a separate economic group. In economic literature, these countries are called "transition economies." In these countries, the transformation of the economic system is characterized by a change in property relations, the formation of market institutions, the reform of the financial

and banking system, and the restructuring of tax policy mechanisms.

According to studies by the International Monetary Fund (IMF), the World Bank, and the European Bank for Reconstruction and Development (EBRD), a number of criteria are taken as the basis for classifying a country in the transition economy group. The first criterion is the presence of a gradual transition from centralized planning to market mechanisms in the state economy. The second criterion is the growth of the private sector's share and the implementation of state property privatization processes. The third criterion is the liberalization of prices, the liberalization of foreign trade, and the reorganization of financial institutions based on market principles. The fourth criterion is the adaptation of fiscal policy and public finances to the requirements of a market economy.

Based on these criteria, the countries of Central and Eastern Europe, the CIS countries, and some Asian countries are classified as countries with transitional economies. In particular, such countries as Poland, the Czech Republic, Hungary, Romania, Bulgaria, Estonia, Latvia, and Lithuania have successfully implemented the process of transition to a market economy. Also, such CIS countries as Uzbekistan, Kazakhstan, Kyrgyzstan, Azerbaijan, Georgia, Ukraine, and Moldova are recognized as countries continuing the process of economic transformation. In some studies, countries such as Vietnam, China, and Mongolia are also considered as countries with transitional economies, gradually introducing market institutions.

In the context of a transitional economy, the tax system is one of the most important instruments of state economic policy. Because through the tax system, budget stability is ensured, economic reforms are financed, and the activity of the private sector is stimulated. However, during the period of economic transformation, such problems as the limited tax base, the high share of the shadow economy, and the insufficient formation of tax administration make the improvement of the tax system an urgent issue.

In this regard, this article provides a scientific analysis of the features of the formation of the tax system of transition economies, the stages of its institutional development, and its role in the process of economic transformation.

### **Research Methodology**

In this study, a comprehensive scientific approach was used to study the features of the formation and development of the tax system of countries with economies in transition. The theoretical basis of the research is the theory of public finance, the concept of the institutional economy, and scientific views on models of economic transformation.

In the research process, the comparative analysis method was used as the main method, and the indicators of the tax system of the countries of Central and Eastern Europe, the CIS countries, and some Asian countries were compared. The official statistical data of the OECD, the International Monetary Fund (IMF), the World Bank, and the European Bank for Reconstruction and Development (EBRD) served as an empirical basis.

The study also used methods of statistical analysis, generalization, and grouping to

assess the dynamics of economic indicators. The influence of tax policy on economic transformation in countries with economies of transition through induction and deduction methods has been scientifically substantiated. The applied methodological approaches made it possible to identify trends in the institutional development of the tax system and develop practical conclusions on improving national tax policy.

### Literature Review

Issues of the formation of the tax system of countries with transition economies have been widely studied in world economic literature, and tax policy in these countries is considered as an important institutional element of economic transformation. Since the transition from a centrally planned economy to a market economy requires the restructuring of public finances, tax system reforms have become one of the main directions of the transformation policy.

In the theory of public finance, the role of the tax system in ensuring economic stability was substantiated by R. Masgrave, who defined tax policy as an important instrument of resource allocation, income redistribution, and macroeconomic stabilization [1].

J. Stiglitz emphasizes that during the transition to a market economy, state tax policy plays a decisive role in the formation of institutional market mechanisms [2].

In the scientific substantiation of the theory of the transition economy, the research of János Kornai is of particular importance, which shows the existence of the problem of "institutional adaptation" in the transition from a socialist economy to a market economy [3].

In his opinion, the tax system is not only a source of income, but also a mechanism for forming market discipline. V. Tanzi scientifically substantiated that the underdevelopment of tax administration in a transformation economy leads to a decrease in tax revenues [4].

In studies by the International Monetary Fund and the World Bank, the processes of simplifying tax rates, introducing value-added tax, and digitalizing tax administration are indicated as the main directions of tax reforms in countries with transition economies [5]. According to the European Bank for Reconstruction and Development, the tax system in the countries of Central and Eastern Europe is one of the most rapidly implemented areas of institutional reform [6].

Representatives of the Russian school of economics also extensively studied the tax system of countries with transitional economies. In the works of E. Gaidar and S. Sinelnikov-Murilov, it was emphasized that reforms of the tax system in post-Soviet states are the main condition for ensuring the stability of the state budget [7]. L. Okuneva's research notes that the relationship between the tax burden and economic growth is especially noticeable during the transformation period [8].

In the works of Kazakhstani scientists, including K. Ilyasov and B. Sabdenov, it is scientifically substantiated that the liberalization of tax policy served to improve the investment climate [9]. Belarusian economists, on the other hand, emphasized the need for a phased modernization of the tax system in economies with a high share of state

participation [10].

In the studies of Uzbek scientists A. Vahobov, Sh. Shodmonov, and B. Khodiev, the significance of the tax system in stimulating economic growth under the conditions of national economic transformation is comprehensively covered [11]. In their opinion, the stability of tax policy and the digitalization of tax administration are one of the main factors in increasing the effectiveness of economic reforms.

In general, the analysis of scientific literature shows that the development of the tax system in countries with a transition economy is carried out in three stages: institutional formation, expansion of the tax base, and transition to digital administration. These scientific approaches form the theoretical basis of the research.

### **Analysis and Results**

In countries with transition economies, the tax system is one of the most complex and institutionally important areas of the economic transformation process. In the context of the transition from a planned economy to market relations, the state financial system is transformed, and tax policy becomes the main instrument of financing economic reforms. However, the development of the tax system in these countries is accompanied by a number of systemic problems.

First of all, the insufficient formation of the tax base is one of the main problems for countries with transition economies. The process of privatization of state-owned enterprises, the high share of the informal sector, and the incomplete accounting of economic activity negatively affect the stability of tax revenues. According to estimates by international organizations, in some countries with transition economies, the share of the shadow economy reaches 25-40 percent of GDP, which limits the possibility of fully utilizing the potential of tax revenues<sup>1</sup>.

The second important problem is related to the level of institutional development of tax administration. In countries where the level of digitalization of tax authorities is low, the effectiveness of tax control is insufficient, and the influence of the human factor remains high. This leads to a decline in tax discipline and an increase in tax evasion. The complexity of tax accounting, especially in the sphere of small business and services, reduces the level of voluntary compliance of taxpayers.

The third pressing issue is related to the imbalance of the tax burden. In many countries with transition economies, the tax burden is higher than in some sectors or the formal sector, while other parts of the economy remain outside the tax system. As a result, the competitive environment is disrupted and the pace of economic growth slows down. This situation creates the need to expand the tax base by reducing tax rates.

The fourth problem is the instability of tax legislation. Frequent changes in tax rules negatively affect the investment climate and limit the possibilities of business entities for long-term planning. Due to insufficient institutional stability in transition economies, tax policy is often focused on short-term fiscal objectives.

<sup>1</sup> Author's calculations based on IMF (2023), OECD (2023), EBRD (2023) [12-15].

The fifth important issue is related to the insufficient consistency between state budget expenditures and tax policy. In many cases, attempts to increase the tax burden under conditions of low budget expenditure efficiency limit economic activity. The experience of developed countries shows that the effectiveness of the tax system is directly related to the effectiveness of budget expenditures.

Furthermore, the development of the digital economy poses new challenges for the tax system of transition economies. E-commerce, cross-border digital services, and the platform economy require a review of taxation mechanisms. The insufficiency of institutional mechanisms in this area leads to the loss of part of tax revenues.

An important indicator in assessing the effectiveness of the tax system in countries with transition economies is the tax revenue-to-GDP ratio. This indicator reflects the fiscal potential of the state, the level of tax administration, and the formality of the economy.

**Table 1 Tax in some transition economies ratio of revenues to GDP<sup>2</sup> (%)**

Country	Tax revenues / GDP (%)	Nature of the economic situation
<b>Uzbekistan</b>	27,8	At the stage of tax reform
<b>Kazakhstan</b>	25,4	Resource-based economy
<b>Kyrgyzstan</b>	23,6	Small open economy
<b>Georgia</b>	26,5	Liberal tax model
<b>Ukraine</b>	32,1	Fiscal restructuring process
<b>Poland</b>	36,8	Successful transformation
<b>Czech Republic</b>	35,9	EU integration model
<b>Hungary</b>	37,4	Investment-oriented tax policy

The table data show that there is a significant difference in the level of tax revenues between countries with transition economies. In the countries of Central and Eastern Europe (Poland, Czech Republic, Hungary), the ratio of tax revenues to GDP is high, which is explained by the success of institutional reforms and the development of tax administration. In the CIS countries, this indicator is relatively low and is associated with the high share of the informal sector in the economy and the limited tax base.

In Uzbekistan, the ratio of tax revenues to GDP is formed at an average level, and in recent years, a policy of stimulating economic activity through the reduction of tax rates and the digitalization of tax administration has been implemented. This reflects the effectiveness of reforms aimed at ensuring budget stability without increasing the tax burden.

The level of development of the tax system in countries with transition economies is determined by the pace of economic transformation, the effectiveness of institutional reforms and public financial management. From this point of view, a comparative analysis of the tax system of Uzbekistan with other countries with a transitional economy allows us to identify trends in the development of tax policy.

<sup>2</sup> Author's development based on sources from the bibliography [16-20].

**Table 2 Uzbekistan and some transition economies tax  
Comparative analysis of system indicators[11, 12, 13]**

Indicators	Uzbekistan	Kazakhstan	Georgia	Poland	Czech Republic
Tax revenues / GDP (%)	27.8	25.4	26.5	36.8	35.9
VAT rate (%)	12.	12.	18.	23.	21.
Income tax model	Unified rate	Unified rate	Unified rate	Progressive	Progressive
Digitalization of tax administration	High	High	Very high	Very high	Very high
Share of the shadow economy (%)	Average	Average	Low	Low	Low
Tax reform phase	Active transformation	Stabilization	Liberal model	Integrated	Integrated

Analysis of the table shows that the tax system of Uzbekistan is currently undergoing a period of active transformation. The reduction of tax rates, the optimization of the VAT rate, and the digitalization of tax administration are aimed at stimulating economic activity.

The tax models of Kazakhstan and Uzbekistan have similar features, both apply a single income tax rate and implement a policy of stabilizing the tax burden. However, in the example of Georgia, the tax system was liberalized, and the small number of types of taxes and administrative simplicity served to improve the investment climate.

The countries of Central and Eastern Europe - Poland and the Czech Republic - have a high ratio of tax revenues to GDP, and these countries have a tax system adapted to the institutional standards of the European Union. In them, the progressive income tax system plays an important role in ensuring social justice.

As a result of the comparative analysis, the following trends were identified:

- in countries with transition economies, the effectiveness of tax administration, rather than the tax burden, is a decisive factor;
- tax collection is stable in countries with a high level of digitalization;
- reduction of tax rates in most cases does not reduce budget revenues by expanding the tax base;
- institutional stability is the main condition for the effectiveness of the tax system.

The most important conclusion for Uzbekistan is that a hybrid approach, combining the institutional model of European countries and the experience of Georgia in administrative simplification, can be effective in improving the tax system.

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## Conclusion

The research results show that in countries with economies in transition, the tax system is one of the most important institutional elements of the economic transformation process. In these countries, tax policy serves not only to form state budget revenues, but also to strengthen market economy institutions, stimulate the development of the private sector, and ensure macroeconomic stability.

According to the results of a comparative analysis, the development of the tax system in countries that have successfully implemented transformation relies on three main factors: digitalization of tax administration, proportionality of the tax burden, and stability of tax policy. While the countries of Central and Eastern Europe have achieved high tax collection through institutional reforms, in some CIS countries, the limited tax base and the high share of the shadow economy limit the effectiveness of the tax system. In the example of Uzbekistan, the tax reforms implemented in recent years are significant because they are aimed at reducing the tax burden, improving the business environment, and digitalizing tax administration. However, in the context of economic transformation, the need for further improvement of the tax system remains.

In our opinion, in the practice of the local tax system, it is advisable to carry out the following work:

Firstly, in order to expand the tax base, it is necessary to widely implement digital tax control mechanisms aimed at reducing the shadow economy and developing tax administration based on risk analysis.

Secondly, in order to stimulate economic growth, it is advisable to strengthen institutional reforms aimed at simplifying the tax system and increasing the level of voluntary compliance of taxpayers, rather than increasing tax rates.

Thirdly, to ensure the stability of the state budget, it is necessary to form a long-term fiscal policy strategy that combines tax policy and the effectiveness of budget expenditures.

Fourthly, based on the experience of countries with transition economies, it is advisable to reduce tax administration costs and further improve the investment climate by digitalizing the tax system, automating tax services, and developing electronic tax infrastructure.

In conclusion, the institutional improvement of the tax system, its harmonization with the processes of economic transformation, and the adaptation of international best practices to national practice are an important condition for ensuring sustainable economic development in countries with transition economies.

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