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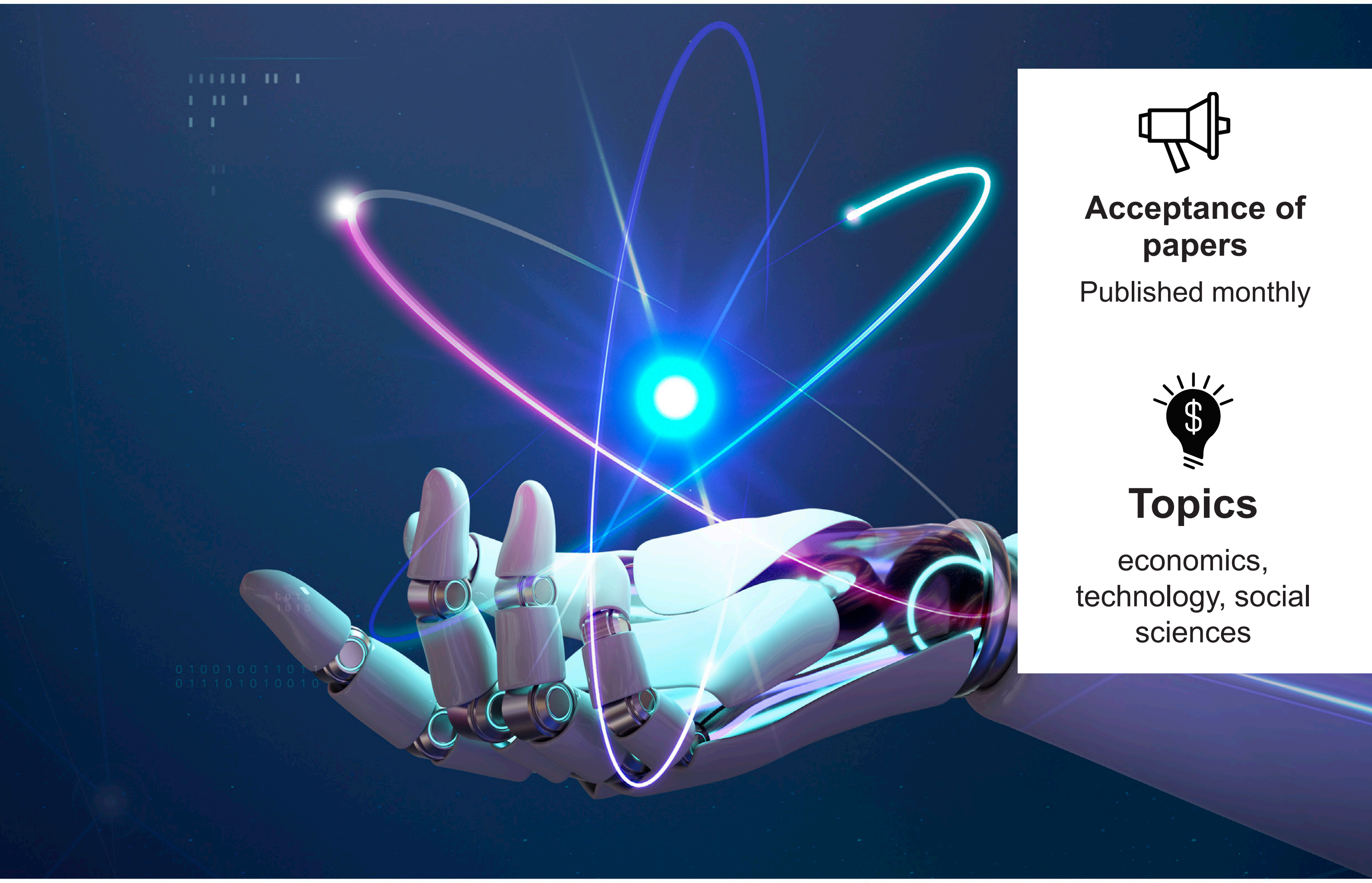

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CONTENTS

CONTENTS

CONTENTS

CONTENTS

FINANCIAL ISSUES IN REGULATING SOCIAL SECURITY OF THE POPULATION UNDER CONDITIONS OF SOCIALLY ORIENTED BUDGET EXPENDITURES

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Abstract: This article examines issues of enhancing the social security of the population and improving its financial mechanisms amid global demographic changes and Uzbekistan's socio-economic and innovative development. It analyzes the social orientation of budget expenditures, the financial sustainability of the Pension Fund, and expanding the revenue base through the legalization of informal employment. The author proposes scientific recommendations on increasing the targeting of social protection and introducing innovative financial instruments.

Key words: social security, financial mechanism, Pension Fund, social transfers, informal employment, innovative economy, targeted protection, insurance premiums.

INTRODUCTION

Uzbekistan is gradually transitioning to a modern social security system that meets contemporary requirements to take its place among developed nations. Enhancing social security primarily involves ensuring high-quality provision of all types of social security—pensions, social protection, and other payments—drawing on foreign experiences and best practices.

Since the early days of independence, social payments have undergone the most significant reforms in our economic reality. At every stage of market relations, social payments have been one of the most important directions of Uzbekistan's social policy and continue to be so.

In the context of New Uzbekistan, reforming social security types, studying advanced experiences of developed countries, and adopting the most relevant ones into our social life is crucial. Despite the challenges, payments are being implemented, with systematic measures targeting the interests of socially vulnerable groups.

Finding financial resources and directing them to fully satisfy the population's interests through financial mechanisms is possible. Providing each citizen with social security support based on their social status has always been at the center of our government's attention. Over the last 10 years, protecting the population socially, creating new jobs, paying higher wages, allocating certain population groups to special categories, and providing financial assistance to lift them to average financial security levels have been achieved through adopted laws and decisions.

Therefore, studying financial issues in regulating social security under socially oriented budget expenditures remains relevant today.

REVIEW OF LITERATURE ON THE SUBJECT

In contemporary economic literature, the regulation of social security systems is closely linked to the broader objective of improving the socio-economic conditions of the population through internationally harmonized financial mechanisms. Foreign scholars have extensively examined the role of social protection within macroeconomic and institutional frameworks, emphasizing its function as an integral component of both economic stability and social development. In particular, John Maynard Keynes conceptualized social payments as automatic stabilizers, arguing that during periods of economic downturn, public transfers help sustain aggregate demand and mitigate the depth of crises. From a different perspective, Milton Friedman proposed the negative income tax model, highlighting the efficiency of direct cash transfers in reducing administrative costs and minimizing bureaucratic inefficiencies in welfare distribution.

Further advancing the theoretical foundations of social security, Amartya Sen underscored that social protection should not be limited to material assistance but must be understood as a mechanism for expanding individual capabilities, enabling people to re-enter the labor market and actively participate in economic life. Similarly, Nicholas Barr provided a comprehensive analysis of the financial sustainability of pension and social insurance systems, particularly in the context of demographic shifts such as population aging, and explored the transition from pay-as-you-go schemes to funded pension models as a response to long-term fiscal pressures.

Within the national context, Uzbek scholars have also contributed to the development of financial approaches to social security regulation. A. Vahobov and T. Malikov emphasized the importance of performance-based budgeting as a tool for increasing the efficiency and transparency of socially oriented budget expenditures. N. Khaydarov, in turn, examined the growing role of extra-budgetary funds, particularly the Pension Fund, and stressed the need to diversify their revenue sources to ensure financial stability and resilience.

Overall, the reviewed literature demonstrates that social security is not merely a system of material support but represents a complex state policy aimed at ensuring social stability and fostering the reproduction of social capital. It encompasses financial mechanisms through both budgetary and extra-budgetary funds designed to mitigate the consequences of severe life circumstances and to provide targeted support to socially vulnerable groups in accordance with constitutional principles (Table 1).

Table 1. Comparative Theoretical Approaches to Social Security Regulation and Their Financial Implications

Scholar/School	Main Scientific View (Concept)	Approach to Social Security
J.M. Keynes	Macroeconomic Balance	Social payments - tool to stimulate aggregate demand.
Amartya Sen	Capabilities Approach	Social security - means to enhance human potential.
Nicholas Barr	Risk Management	Social protection - financial insurance against life risks (illness, old age).
B.Sh. Khusanov	Financial Mechanism Innovation	Social security - optimal balance of budget and insurance premiums.

RESEARCH METHODOLOGY

The study employed systemic approaches, comparative analysis, economic-statistical, and econometric modeling methods. Theoretical foundations were drawn from concepts developed by leading scientific centers such as the University of Chicago, Harvard University, and the University of Cambridge. The data base included official indicators from the Ministry of Economy and Finance of the Republic of Uzbekistan and the Pension Fund for 2019–2024. Methods for scientifically substantiating the financial mechanism of social security regulation and shaping innovative concepts were applied.

The methodological foundations of population social security have been extensively studied by leading global scientific centers, including University of Chicago, Harvard University (USA), University of Cambridge (UK), and others. These studies have developed principles for aligning financial mechanisms of social security internationally.

ANALYSIS AND RESULTS

The analysis of socially oriented budget expenditures in Uzbekistan demonstrates that the social sector continues to occupy a dominant and strategically significant position in the structure of public finance. In recent years, approximately 60–65% of total state budget expenditures have been allocated to key social sectors such as education, healthcare, and social protection. This high share reflects not only the state's adherence to the principles of a social welfare model but also its long-term orientation toward human capital development as a fundamental driver of sustainable economic growth. Increased investments in education and healthcare contribute to improving labor productivity, reducing poverty levels, and strengthening overall social stability, thereby creating a multiplier effect within the national economy.

At the same time, the financial sustainability of the Pension Fund remains one of the central issues in regulating social security. During the period of 2019–2024, a number of structural reforms were implemented, leading to relative stabilization of deficit indicators. However, persistent demographic pressures, including population aging and the growing ratio of pensioners to contributors, continue to pose risks to long-term fiscal balance. In this context, expanding the revenue base of the Pension Fund is of critical importance. One of the most effective measures is the formalization of informal employment and labor migrant incomes. Estimates suggest that legalizing such income sources could generate an additional average contribution of around 426,000 soums per person annually. If even 15–20% of informal sector workers are integrated into the formal contribution system, the need for budgetary transfers to the Pension Fund could be reduced by approximately 12–15% per year, thereby easing fiscal pressure and enhancing system sustainability.

In addition, introducing more flexible participation mechanisms, such as voluntary insurance premium payments for individuals who have reached retirement age without sufficient work experience, could improve inclusiveness and fairness within the pension system. This approach allows for the gradual expansion of coverage while reducing dependency on direct budget financing. At the same time, it is essential to strengthen actuarial calculations and digital monitoring systems to ensure transparency and efficiency in fund management.

Another important direction in improving the effectiveness of social expenditures is the enhancement of targeting mechanisms. The classification of beneficiaries into categories such as “low-income” and “low-provision” families enables a more precise allocation of financial resources. By implementing data-driven targeting systems and integrating digital registries, the government can minimize leakage, reduce duplication of benefits, and ensure that assistance reaches the most vulnerable groups. This contributes to optimizing budget expenditures and increasing their social return.

Furthermore, the role of social innovations is becoming increasingly significant in transforming the traditional model of social assistance. In particular, initiatives aimed at supporting individuals included in the “Iron Notebook” system represent a shift from passive welfare provision toward active income generation. Developing a comprehensive framework that combines financial support, vocational training, access to microfinance, and entrepreneurial incentives allows these individuals to transition from dependency to self-sufficiency. Encouraging entrepreneurship as a strategic driver not only increases household incomes but also stimulates local economic activity, expands the tax base, and reduces long-term social expenditure burdens.

CONCLUSIONS AND SUGGESTIONS

The proposed financial mechanism for regulating social security via budget funds promotes rational use and social justice. These findings can serve as criteria for amending legal documents and developing “Roadmaps” for state agencies.

Key conclusions:

1. Diversify revenue sources for financial sustainability.
2. Enhance targeting for efficient budget use and social justice.
3. Refine social insurance legislation: Introduce convenient premium systems for non-standard employment (freelancing, platform work).
4. Digital social protection: Expand the “Unified Social Protection Registry” to 100% automated aid assignment.
5. Private pension funds: Create legal bases for voluntary private pensions to reduce state system load.
6. Proposals can serve as benchmarks for reform “Roadmaps.”

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