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Priority Directions in The Management of Public Debt in The Republic Of Uzbekistan

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Abstract: This article discusses the significance of public debt in the development of the national economy and social infrastructure. It outlines the economic essence of public debt and presents scholarly conclusions by economists regarding the causes of its emergence. The article explores the advisory guidelines provided by international financial organizations concerning internal and external debt norms. Analytical data on Uzbekistan's external and internal debt are provided. Furthermore, proposals and recommendations on the effective management of debt are formulated.

Keywords: External debt, international standards, income, export, gross revenue, added value, gross domestic product, domestic debt, securities.

Introduction: The management of a state's debt obligations is one of the elements of macroeconomic policy. Effective use of debt can serve as a powerful driver of economic growth. A stable position in the international capital market and timely fulfillment of debt obligations enhance a country's international reputation and attract additional investment on more favorable terms. In addition, it increases trust in the national currency and strengthens foreign trade relations. On the other hand, a crisis in external debt can not only negatively impact the economy but may also carry political implications. Indeed, the need for borrowing naturally arises depending on a country's economic condition. The demand for borrowing may emerge not only during economic crises or stagnation but also for implementing certain strategically important projects or programs. For example, special attention should be paid to developing social infrastructure, reducing poverty through employment, supporting the growth of small and medium-sized enterprises, and strengthening defense capabilities.

In the development of Uzbekistan's economy, public debt, as well as effective economic governance, play an important role. In Presidential Decree No. PF-60 issued on January 28, 2022, "On the Development Strategy of New Uzbekistan for 2022–2026," [1] the third priority direction, "Accelerated development of the national economy and ensuring high growth rates," includes specific measures for economic development and effective public debt management.

It is important to note that in recent years, the increasing volume of public debt has sparked a variety of opinions and approaches among the academic community and the general public. Therefore, it is becoming crucial to establish debt limit thresholds, assess the impact of public debt on macroeconomic stability, and conduct research to improve the scientific aspects of debt management.

LITERATURE REVIEW

High levels of public debt raise concerns about debt sustainability. Rising interest rates increase pressure on public finances due to the cost of debt servicing. Economic literature highlights other concerns related to public indebtedness. While public spending funded by debt may stimulate short-term economic activity, persistently high and growing debt levels can negatively affect long-term economic growth [2]. As the volume of public debt grows, the government's demand for capital in financial markets rises, creating competition with the private sector. In such cases, public debt may crowd out private investment in two ways: first, by substituting real capital in investment portfolios; and second, by raising the cost of borrowing for the private sector. When public debt reaches high levels, investors demand higher returns as compensation for increased risk, which raises the yield on sovereign bonds [3].

From an economic perspective, public debt is one of the tools of fiscal policy used for the following purposes: covering budget deficits, stimulating economic activity, supporting monetary policy, and financing specific strategic projects. Through public debt, the government enhances investment capacity and quickly mobilizes resources for the development of key economic sectors. In this way, it is viewed as a tool that accelerates capital accumulation [4].

Public debt, as an integral feature of a market economy, directly or indirectly influences the state budget, inflation, foreign investment, exchange rates, and other indicators. Debt management mechanisms are used to regulate monetary circulation, determine the level of business activity, and balance public revenues, expenditures, and budget deficits [5]. The expansion of cross-border financial flows has contributed to the rapid development of the debt capital market and the formation of stable credit-debt relations among countries. The increase in external public debt is largely linked to globalization processes, which have accelerated the development of the international credit system. Globalization facilitates investment processes and generates new financial flows that rapidly move between countries, fundamentally reshaping the structure of credit-debt relations [6].

It is worth noting that in recent years, many studies on public debt management have been conducted by economists in our country, which has had a positive impact on the development of this field.

The impact of public debt on the economy can be both positive and negative. When public debt levels are low or the state budget shows a surplus, there is usually no demand for government securities in the financial market. As a result, the most liquid instruments of the financial market do not emerge, leaving business entities dependent solely on the banking system for access to financial resources. Furthermore, an increase in government expenditures can lead to a trade balance deficit [7]. In the context of engaging in international financial and economic relations and organizing integration processes, public debt is considered one of the key instruments for economic development. Most foreign countries, regardless of their level of economic development, carry both internal and external public debt. Public debt is a dynamic indicator that may increase or decrease over time. A reduction in public debt also reduces the debt burden and saves resources that would otherwise be spent on debt servicing [8]. In managing public debt, it is important to consider its types and operate within established economic criteria. Therefore, clarifying administrative responsibilities and establishing economic benchmarks in public debt management are of great importance [9].

Of course, as the definitions by economists mentioned above show, public debt not only contributes to national economic development but also serves as a key source for financing urgent expenditures in the present time. In managing public debt, it is essential to pay special attention to the standards recommended by international organizations and institutions. Exceeding the established limits of public debt can lead to economic problems for the state in the future.

RESEARCH METHODOLOGY

During the course of this scientific study, methods such as synthesis, categorization, abstract-logical reasoning, forecasting, logical and structural analysis, as well as mutual and comparative analysis, were effectively utilized.

ANALYSIS AND RESULTS

One of the most important aspects of managing public debt is developing an appropriate assessment methodology and ensuring its proper application in national practice. Although international standards set certain thresholds for a country's internal and external debt, each state must make decisions regarding these thresholds based on its own level of economic development and a number of related factors. Nevertheless, many international financial organizations determine these limits depending on whether the country is developed or developing and based on the current status of its market economy, offering corresponding methodological frameworks.

International studies show that there is currently no single, unified approach for defining the minimum acceptable levels or threshold values of external public debt relative to GDP for developed and developing countries. Most international financial institutions or major credit rating agencies provide varying interpretations of what constitutes a minimum or safe level of external debt. In our view, among these, the recommendations outlined in the international standard ISSAI 5411 (The International Organization of Supreme Audit Institutions) regarding minimum thresholds for developing countries over the past 10–15 years provide more detailed and comprehensive guidance compared to other indicators (see Table 1).

Each of these indicators not only assesses the financial capabilities of the state, but also prescribes the introduction of appropriate changes or additions to public debt management strategies in cases where established thresholds are exceeded.

Table 1

Minimum Recommended Levels of Public Debt Indicators According to the ISSAI 5411 International Standard

№	Indicators	Debt write-off, %	Debt write-off, %
1	Debt balance/income	28-63	25-35
2	Current value of debt/income	88-127	200-300
3	Interest/income	4,6-6,8	7-10
4	Debt/GDP	20-25	25-30
5	Debt/income	92-167	90-150

It should be noted that individual countries use various methods to determine debt sustainability and establish threshold limits at both the national and regional levels. Some of the methodologies employed are regulated by specific national mega-regulatory bodies and are recommended by institutional organizations. While earlier we discussed the recommendations provided by the International Monetary Fund (IMF), it is worth noting that the World Bank has also offered specific guidelines on public debt management.

What distinguishes this methodology from others is its ability not only to ensure debt sustainability but also to forecast the optimal level and structure of debt in the future. According to this methodology, the debt level criteria or Debt Sustainability Framework (DSF) indicators must be constantly monitored and validated by relevant state bodies. This indicates that these indicators have a dynamic nature, and it is difficult to define them within a single strict threshold.

According to the IMF's report on the economic outlook of countries, the public debt of the Republic of Uzbekistan is currently assessed at a “moderate” level. In 2017, Uzbekistan's external debt amounted to USD 7.5 billion, which accounted for 18.7% of GDP. However, over the next five years, this figure showed a more than threefold increase, reaching USD 23.6 billion, or 38% of GDP, by the end of 2021 (Figure 1).

In particular, the ratio of public debt to GDP decreased from 38.0% at the beginning of 2022 to 36.4% as of January 1, 2023. Although public debt increased by USD 2.9 billion during 2022, the ratio declined because GDP in USD terms grew rapidly—by USD 11.1 billion. In recent years, the measures taken to maintain public debt at a moderate level and ensure effective management are showing positive results.

Starting from 2020, Uzbekistan introduced a legal framework to limit the volume of newly attracted external public debt. For instance, according to the Law of the Republic of Uzbekistan “On the State Budget of the Republic of Uzbekistan for 2020,” the maximum volume of new external debt agreements signed on behalf of the Republic of Uzbekistan or under its guarantee was set at USD 5.5 billion.

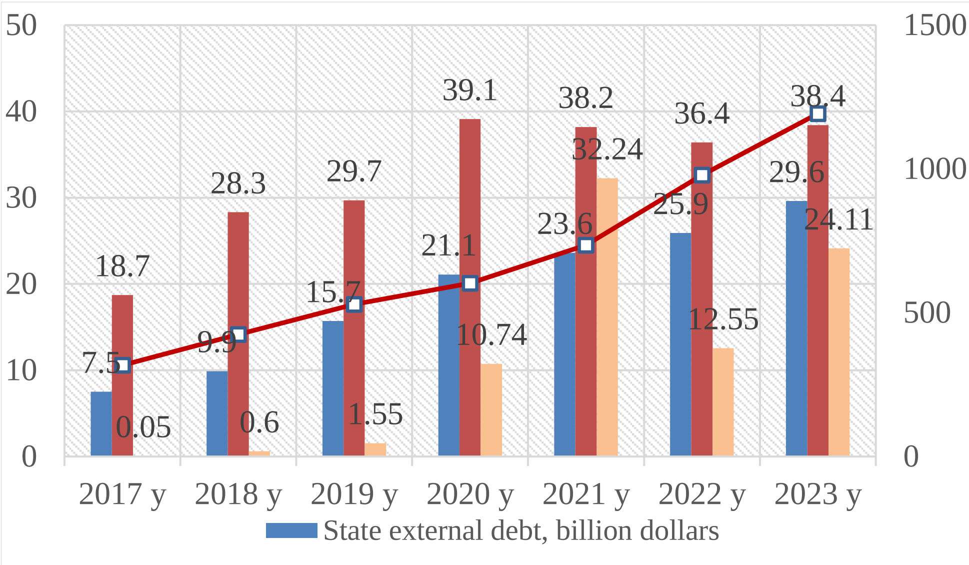

Figure 1. Information on the Volume of External Public Debt and Government Securities

As of the end of 2020, the volume of newly signed government external debt agreements amounted to 5.35 billion US dollars. Starting from 2021, the legal regulation of the safe level of government debt, as well as the limits on new government domestic and external debt agreements, was introduced. The recommendations related to the minimum and maximum limits of debt to GDP ratio or debt sustainability framework proposed by the World Bank are presented in the following table (Table 2).

Another advantage of the methodology recommended by the World Bank is the differentiation of these threshold values according to the economic development levels of individual countries. In turn, the existing methodology is regularly reviewed based on the economic development trends of countries. At the same time, a rapid increase in government debt beyond the country’s economic development and financial capacity can lead the country to the brink of a crisis, reducing the ability of relevant government bodies to resolve problems related to debt burden. Since 2011, the methodology introduced by the World Bank for calculating debt sustainability takes into account the following factors:

- Budget risk;
- Composition of government debt;
- Characteristics of the country's economic development and capacity, among others.

Table 2

Threshold Levels of Government Debt

Range of indicators	Current value of public external debt, in percent		Debt service costs, in percent		Current value of total public debt, in percent
	GDP	Export	GDP	Export	GDP
Low	30	140	10	14	35
Medium	40	180	15	18	55
High	50	240	21	23	70

Since 2013, the World Bank and the IMF have revised the criteria used to assess public debt for certain groups of countries, particularly regarding its relation to GDP, as follows:

- For developing countries — 50 percent of GDP;
- For developed countries — 60 percent of GDP.

The cost of servicing public debt is set at 10 percent of GDP for developing countries and 15 percent for developed countries. By 2018, the World Bank and IMF made several adjustments to their recommended methodologies for debt sustainability limits, including: the use of aggregated (generalized) indicators based on a set of factors that directly influence changes in debt burden; detailed analysis of the socio-economic development of countries; and baseline forecasts of public debt, among others.

CONCLUSION

In the development of a country’s economy, the formation of financial resources through domestic debt sources or revenues and their effective utilization are of great importance. However, the growing demand for additional capital creates a need to attract financial resources from international capital markets. It is crucial to establish adequate control mechanisms for the use of these funds to ensure the efficiency of each unit of attracted capital. In recent years, the Head of our State has placed special emphasis on the effective use of externally attracted debt funds and on developing social infrastructure through these resources.

According to the International Monetary Fund, Uzbekistan's economy grew by 6.4% in 2024. This growth is mainly driven by increased domestic demand, rising real incomes, and investments in infrastructure projects. The IMF forecasts GDP growth at 5.9% for 2025, supported by domestic demand and continued investments. Although the levels of public and external debt are increasing, this growth remains under control and is positively evaluated by international rating agencies. The rise in external debt and government securities reflects the state's investment in infrastructure as well as social and economic projects.

Analysis results show that over the past seven years, the amount of debt attracted by the state has doubled. Moreover, alongside economic reproduction processes, the volume of GDP has also grown significantly. For instance, GDP was 317.4 trillion soums in 2017 and has increased more than 3.8 times, reaching 1,204.1 trillion soums by the end of 2024. When evaluated according to the debt sustainability thresholds proposed by the IMF and the World Bank, the growth of external debt is 0.7 percentage points below the threshold. Additionally, in terms of risk level, it is approaching the range between the minimum and medium thresholds.

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