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 Research Article

## STATE DEBT MANAGEMENT POLICY IMPROVEMENT PROSPECTS

Submission Date: Sep 08, 2024, Accepted Date: Sep 13, 2024,

Published Date: Sep 18, 2024

Crossref doi: <https://doi.org/10.37547/marketing-fmmej-04-09-05>

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### ABSTRACT

This article describes the economic importance and necessity of public debt in developing the national economy. The scientific approaches of economists to the effective management of state internal and debt have been researched and conclusions have been drawn. In recent years, the trends of changes in public debt in the Republic of Uzbekistan have been analyzed. Findings on the implementation of the public debt management strategy and its main directions are based. A scientific proposal and practical recommendations on improving the mechanism of efficient management and distribution of state debts have been developed.

### KEYWORDS

Foreign debt, domestic debt, GDP, indicators, state securities, investment projects, bonds, risk, investment policy.

### INTRODUCTION

External and internal borrowing by the state is of high importance in ensuring economic development in our country. Participation of foreign capital and domestic debt instruments of the state occupies an important place in the stages of development of any economically developed country. In the development of the new Uzbekistan, the state loans are used effectively not only to finance large investment projects and promising programs but also to develop social infrastructure, reduce poverty, and cover the budget deficit. To date, the amount of external and internal debt of the state to be attracted every year is strictly determined by the legislation to effectively manage the state debt. In the new Development Strategy of Uzbekistan for the period of 2022-2026, it is defined as one of the main tasks "to ensure that the amount of newly attracted external debt does not exceed 4.5 billion US dollars per year in the management of public debt" [1].

Effective management of public debt requires full use of not only external resources but also internal opportunities. Also, diversification of currency units in the portfolio of foreign debts, improvement of the assessment methodology of investment projects financed by debts,

development of concrete measures to predict risks related to debts and reduce them in advance, determine the factors influencing the limits of debts, internal debt It is of urgent importance to solve issues such as the involvement of individuals and non-residents based on the wide application of its instruments in practice and to develop scientific proposals and practical recommendations on them.

#### LITERATURE REVIEW ON THE SUBJECT

Foreign capital plays an important role in the process of economic growth and development of developing countries. Often these countries lack the necessary funds to ensure economic growth. Furthermore, developing countries face a low revenue base and high government operating costs, leading to increased dependence on foreign capital, such as remittances, financial aid, and external debt. "However, the inflow of foreign capital alone may not be sufficient for development, as a sound macroeconomic environment and policies that prioritize these capitals are needed to stimulate the process of economic growth" [2]. In the system of developing the economy based on the market mechanism, the main factors are considered by economists to take into account various external

factors in the emergence of debt relations. In particular, M.Kashmiri's tariff also stated that it is difficult to develop the economy only by attracting the state's foreign debts, and first of all, it is necessary to effectively use monetary, fiscal and monetary credit instruments for the development of the state economy [3].

"A high and unsustainable level of external debt is dangerous for developing countries, causing exchange rate fluctuations, "sudden" cessation of capital flows, and sudden capital outflows, which can lead to a banking system or currency crisis" [4]. If we analyze the opinions expressed by Irfan Qureshi, it is noted that the level of risk is high especially for developing countries. If we look at the example of the national practice, the level of risk that may arise in connection with foreign debt in our country is higher than that of economically developed countries.

The growing external debt in the international economy is directly related to internal and external factors. One such internal factor is the desire of politicians to accelerate the process of economic development in the context of low and insufficient domestic funds. This situation leads to the promotion of foreign borrowing. External factors include low interest rates on foreign loans

and willingness of foreign lenders to lend [5]. Edo Nneka Samson's tariff can be seen as a literal continuation of the same views expressed by the above economists. First of all, it was noted that attracting debt capital without developing the procedure for effective use of internal economic mechanisms creates high economic risks.

External debt is one of the main problems of the global economy, especially in developing countries. With this in mind, it can be said that these countries should use effective strategic methods to get out of the chronic debt crisis. "Strategic analysis of external debt and rational management of external debt should be well planned and part of economic reforms in developing countries" [6].

The textbook published by T.Malikov and A.Vahobov gives general rates for public debt activities and summarizes their main features. In particular, "State debt arises because of debt activity by the state. Debt obligations of the government to individuals and legal entities, foreign countries, international organizations and other subjects of international law are called public debt. The debts of the state are divided into two depending on the location: internal debts of the state and external debts of the state" [7].

J. Sheraliev stated that while public debt is considered an attractive instrument with several positive possibilities, inefficient use of these capital flows occurs as a certain economic loss for the state. "Although the public debt is considered one of the important factors for the development of the economy at the same time, its excessive increase can hurt future economic growth. In such a situation, each country should set an optimal limit on the amount of its internal and external debt, this limit should be at a point that minimizes the negative impact on the country's economic growth, and it is one of the tasks facing the economic policy of all countries at present" [8].

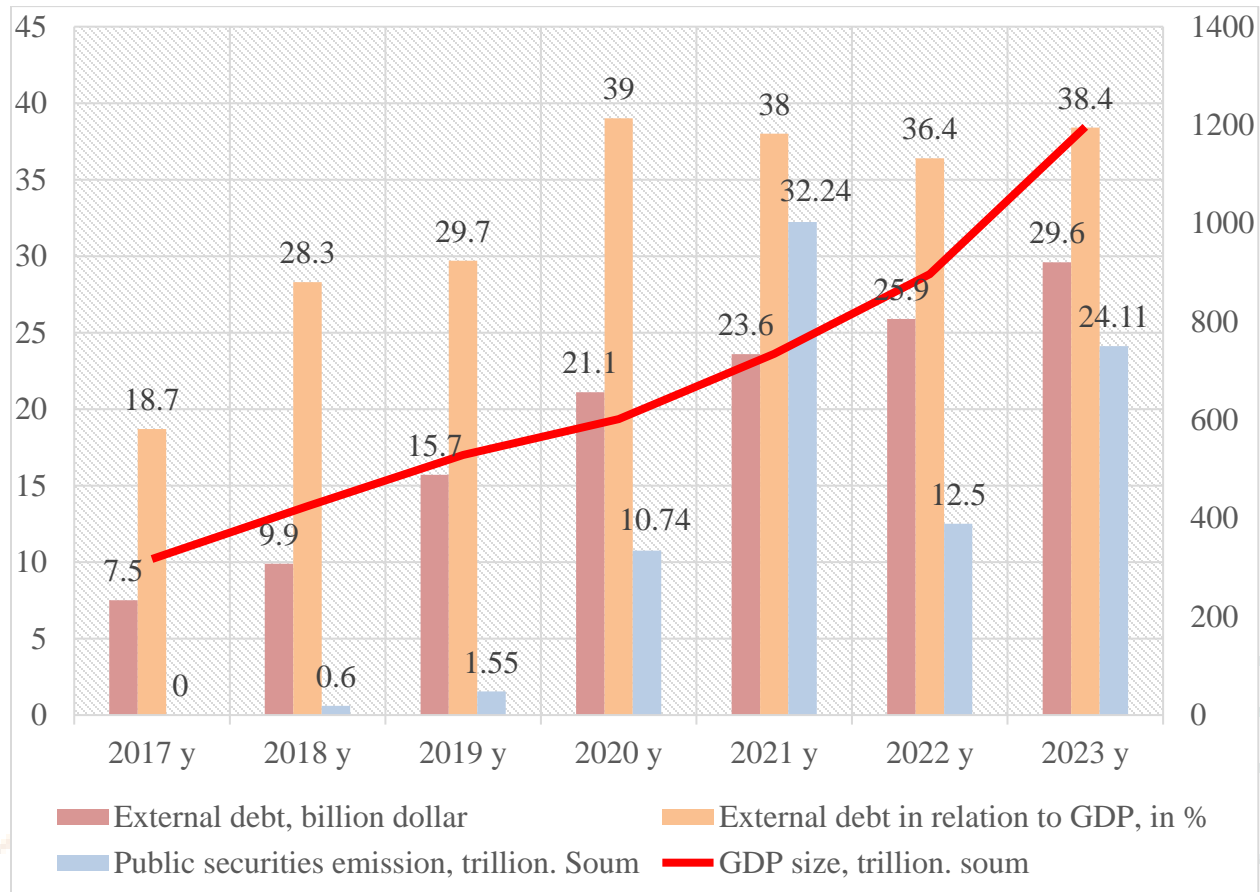
## METHODOLOGY

In the research process, the scientific-theoretical aspects of the effective development of public debt management policy, international standards for evaluating the level of public debt, the analysis of the current state of public debt management, as well as many theoretical literature on the subject, logical thinking based on empirical research,

scientific observation, systematic approach methods widely used.

## RESULTS

The state debt balance as of January 1, 2023 is 29.2 billion. It was 36.4 percent in terms of the US dollar (therefore, the state external debt - 25.9 billion US dollars, the state internal debt - 3.3 billion US dollars), or the gross domestic product (GDP). In particular, the ratio of public debt to GDP decreased from 39.0 percent at the beginning of 2021 (38.0 percent at the end of 2021) to 36.4 percent by the end of 2022. According to the International Monetary Fund's report on the country's economy, the state debt of the Republic of Uzbekistan is currently at a "moderate" level. In 2017, the foreign debt of the Republic of Uzbekistan amounted to 7.5 billion US dollars and made up 18.7% of the GDP. This indicator tends to increase more than three times over the next 5 years, reaching 23.6 billion US dollars or GDP by the end of 2021. compared to 38% (Fig. 1).



**Fig. 1. Information on the volume of state foreign debt and state securities**

In particular, the ratio of public debt to GDP decreased from 38.0 percent at the beginning of 2022 to 36.4 percent as of January 1, 2023. State debt during 2022 is 2.9 billion. Although it increased by 11.1 bln. Because of the increase in dollars, the ratio of public debt to GDP decreased. The measures implemented in recent years to maintain the state debt at a moderate level and effectively manage it are now bearing fruit. In particular: starting from 2020, the practice of

legally limiting the amount of newly attracted state external debt has been established. From this: According to the Law of the Republic of Uzbekistan "On the State Budget of the Republic of Uzbekistan for 2020", the limited volume of new contracts to be signed on behalf of the Republic of Uzbekistan or under the guarantee of the Republic of Uzbekistan during 2020 is 5.5 billion. It was set in the amount of US dollars. By the end of 2020, the volume of new state foreign

debt agreements signed is 5.35 billion. Amounted to US dollars. Starting from 2021, the safe level of the state debt and the limits of newly attracted state internal and external debt agreements have been established at the legal level.

Following the Law of the Republic of Uzbekistan "On the State Budget of the Republic of Uzbekistan for 2021": the amount of public debt attracted on behalf of the Republic of Uzbekistan and under the guarantee of the Republic of Uzbekistan should not exceed 60 percent of the annual forecast indicator of the gross domestic product; For 2021, the limited net volume of new agreements to be signed on behalf of the Republic of Uzbekistan and under the guarantee of the Republic of Uzbekistan on domestic and foreign debt attraction is 5.5 billion. It was set in the amount of US dollars (including government securities - 5 trillion soums). During 2021, the volume of newly signed state external debt agreements is 4.9 billion. The net volume of state securities issued for financing the US dollar and the State budget is 4.1 trillion.

According to the Law of the Republic of Uzbekistan "On the State Budget of the Republic of Uzbekistan for 2022", the limited volume of new contracts to be signed on behalf of the

Republic of Uzbekistan or under the guarantee of the Republic of Uzbekistan during 2022 is 4.5 billion. The limited net volume of state securities issued in the name of the Republic of Uzbekistan in the amount of US dollars was set at 12.0 trillion soums. In 2022, the total cost is 4.5 billion. 23 new state external debt agreements in the amount of US dollars (including support of the state budget - 2.5 billion US dollars) were signed, and the net volume of state budget financing was 12.0 trillion. State securities were issued, amounting to soums.

By the Law of the Republic of Uzbekistan "On the State Budget of the Republic of Uzbekistan for 2023": the limited volume of new agreements to be signed on behalf of the Republic of Uzbekistan and under the guarantee of the Republic of Uzbekistan for attracting foreign debt for 2023 is 4.5 billion US dollars; The limited net volume of state securities to be issued on behalf of the Republic of Uzbekistan for 2023 was set at 17.0 trillion soums.

Since 2021, the practice of providing state guarantees for domestic obligations has been stopped, and state enterprises and banks are transferring funds to finance their projects in the world financial markets without state guarantees, through the transformation processes.

Of course, one of the main tasks facing any state and government is to increase the well-being of the population by ensuring the economic development of the state. In the implementation of these tasks, the state uses external resources in situations where its internal capabilities are not sufficient. To ensure economic well-being, it is considered correct from an economic point of view to incur debts. That is, financial independence does not mean that the country should completely get rid of foreign debts. On the contrary, practice shows that if the funds are distributed effectively, obtaining loans or funds plays a very important role in the development of the country. But for this, we believe, an effective external debt management system is needed, which ensures the effective use of borrowed funds and minimizes the possible difficulties and costs of this process. The main elements of effective external debt management should be:

- development of a policy that includes the conditions and objectives of external borrowing;
- restructuring of existing debts to form an optimal debt structure while maintaining the level of debt security;

- monitoring of credit obligations, payments and operations related to all loans and debt servicing;
- combining accurate and detailed information on debts in a separate database with the help of digital technologies;
- preparing a forecast of debt and debt service costs to ensure the effectiveness of the formation of budget revenues and the management of the foreign exchange market;
- to continue relations with creditors on the exchange of domestic information, to inform creditors about macroeconomic changes;
- development of a mechanism for selecting projects for inclusion in the investment program. Projects must comply with technical and economic standards and the country's current policy priorities;
- introduction of the procedure for regular audit of the credit portfolio in sectors or creditors. You should be able to cancel projects that are not working efficiently and stop issuing new loans based on the results of the audit.

Of course, the effective management of public debt requires ensuring the coordination of activities of ministries and organizations in all

relevant areas of the state. Above, the main aspects of effective management from our side, as well as participation in the formation and management of debt obligations arising during the implementation of debt policy at all levels of state administration, further increasing their effectiveness also depends on the development of a direct control mechanism. As we know, in the "Digital Uzbekistan - 2030" Strategy adopted in Uzbekistan, the issue of "automatic formation of informed decision-making by creating all the resources necessary for data collection and digitization in public administration by forming a unified system of state information management" [9] was specifically noted. . The effective implementation of these mechanisms is very important in preventing crimes related to inefficient use of borrowed funds, looting, and corruption.

## CONCLUSIONS

Effective management of public debt is considered one of the priorities of the state's economic and social policy. Because the influence of external and internal debts of the state is of particular importance in making decisions on monetary and fiscal policy. In the management of

public debts, the attitude towards the internal and external debt of the state differs from each other. In our opinion, the risks associated with the external debt of the state are higher than the risks associated with the internal debt of the state.

It requires the development of specific directions and projects that can be used in the future when attracting loans from the state. Therefore, special attention should be paid to the mechanism of evaluating the economic efficiency of the state in attracting debts. In addition, if foreign loans are raised in foreign currency, it is necessary to introduce the procedure of forecasting exchange rates of national currency against foreign currency.

When attracting foreign loans, it is necessary to study separately the risks that may arise in assessing the stability of loans from international financial organizations. These are: minimum level of risks, medium level and high level. The classification of risks according to these groups requires the taking of appropriate measures in case of exceeding the minimum or maximum limits set for the economic development and financial possibilities of the debts attracted by the state. If the debts exceed the established international standards, the state needs to



develop different scenarios of economic development and change its macroeconomic policy accordingly.

When forming internal debts by the state, the interest rates of debt instruments should be set higher than the average interest rates in the economy and the deposit rates of commercial banks. According to the decision of the Cabinet of Ministers adopted in February 2022, the procedure for selling government securities to individuals and non-residents was introduced, but the average interest rates for them were set at 16-18%. Taking into account that interest rates on deposits offered by commercial banks today are 22-24%, it reduces the interest of individuals in government securities. Also, we believe that it is necessary to further promote financial literacy among the population and increase the attractiveness of these debt instruments by the changes made to the procedure for the sale of state securities.

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