Frontline Marketing, Management and Economics Journal
ISSN: 2752-700X

Assessment of The Causes of Origin of State Debt and Its Impact on The National Economy

Juraev Pakhlavonjon Usarovich

Tashkent State University of Economics, Independent researcher, Uzbekistan

ARTICLE INfO

Article history:
Submission Date: 14 March 2025
Accepted Date: 10 April 2025
Published Date: 12 May 2025
VOLUME: Vol.05 Issue05
Page No. 8-13
DOI: -
https://doi.org/10.37547/marketing-fmmej-05-05-02

ABSTRACT

This article describes the economic content of state debts and their importance in developing the national economy. The definitions of economists on the concept of state debt are studied and the author's conclusions are formulated. The causes of state debts are studied and their consequences are scientifically studied. Scientific proposals and practical recommendations for the effective management of state debts are developed.

Keywords: State debt, domestic debt, external debt, strategy, state bonds, costs, currency risks, national economy, financial indicator, profitability.

INTRODUCTION

The results of the analysis of international practice show that there are several reasons for the relatively increased demand for external debt in the countries of the world over the past decade and the widening of differences between countries in this regard. The most important of them are the emergence of the global financial crisis, the aggravation of social problems in some countries, economic security issues, imbalances between social requirements, increasing budget deficits as a result of improper use of financial resources, and emergencies.

Of course, it should be noted that in recent years, as in world practice, the volume of external debt has been increasing in Uzbekistan. This plays a special role in solving important tasks in improving the well-being of the population, developing industrial sectors, implementing fundamental reforms in the economy, and developing roads, energy, and other important infrastructure facilities. For developing countries, the continued increase in the amount of external debt will lead to an increase in the budget burden on the state in repaying debts. In addition, negative situations in the economy may arise as a result of attracting corporate loans from domestic and foreign markets and spending them on ineffective projects or as a result of sharp changes in the macroeconomic environment (for example, the level of inflation, economic growth rate, and national currency exchange rates).

Therefore, it is urgent to create a solid legislative basis for effective public debt management in our country, rationally use foreign countries' advanced experience in debt management, and conduct research to optimize the mechanism for distributing debt funds to ensure their economic efficiency.

METHOD

Foreign capital plays an important role in the economic growth and development of developing countries. Often, these countries lack the necessary funds to ensure economic growth. In addition, developing countries face a low income base and high government operating costs, which leads to increased dependence on foreign capital in the form of remittances, financial assistance and external loans. "However, the inflow of foreign capital alone may not be enough for development, as a healthy macroeconomic environment and policy that prioritizes these capitals, which are necessary to stimulate the process of economic growth, are necessary" [1]. In the system of economic development based on the market mechanism, economists consider various external factors to be the main factors in the emergence of debt relations. In particular, M. Kashmiri's tariff also emphasized that it is difficult to develop the economy only by attracting external debt, and first of all, the state should effectively use monetary, fiscal and monetary instruments to develop the economy [2].

"A high and unstable level of external debt is dangerous for developing countries, leading to fluctuations in the exchange rate, a "sudden" stoppage of capital flows and a sharp outflow of capital, which can lead to a banking system or currency crisis" [3]. If we analyze the views expressed by Irfan Qureshi, it is emphasized that the level of risk of external debt is especially high for developing countries. Indeed, if we look at the example of national practice, today the level of risk that may arise in our country related to external debt is higher than in developed countries, and it should be noted that, first of all, exchange rates are changing and affecting with high volatility.

Growing external debt in the international economy is directly related to internal and external factors. One of these internal factors is the desire of politicians to accelerate the process of economic development in conditions of low and insufficient domestic funds. This situation leads to an incentive to borrow externally. External factors include low interest rates on external loans and the willingness of external creditors to lend [4]. Edo Nneka Samson's tariff can be seen as a literal continuation of the ideas expressed by the above economists. First, it is emphasized that attracting debt capital without properly setting up internal economic mechanisms and developing a procedure for their effective use creates high economic risks.

External debt is one of the main problems of the global economy, especially developing countries. Bearing this in mind, it can be said that these countries need to use effective strategic methods to overcome the chronic debt crisis. "Strategic analysis of external debt and rational management of external debt should be well planned in developing countries and be part of economic reforms" [5].

The textbook published by T. Malikov and A. Vakhobov provides general rates for public debt activities and draws conclusions on their main features. In particular, "Public debt arises as a result of the implementation of borrowing activities by the state. The government's debt obligations to individuals and legal entities, foreign states, international organizations and other subjects of international law are called public debt. Public debt is divided into two types depending on the place of placement: internal public debt and external public debt" [6].

J. Sheraliev emphasized that while public debt is an attractive instrument with a number of positive opportunities, the ineffective use of these capital flows results in certain economic losses for the state. That is, "although the state debt is considered one of the important factors for the development of the economy, its excessive increase can have a negative effect on the future economic growth. In such conditions, each state 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 currently one of the tasks facing the economic policy of all states" [7].

RESULTS

According to the Budget Code of the Republic of Uzbekistan, "public debt is the obligations arising from the mobilization of domestic and foreign funds by the Republic of Uzbekistan" [8]. Similarly, the Law on Public Debt of the Republic of Uzbekistan defines public debt as "the obligations arising from the mobilization of domestic and foreign funds by the Republic of Uzbekistan" [9]. Public debt can be classified into internal, external, short-term, and guaranteed types. Each of these types has its sources of formation and possesses specific advantages and disadvantages (see Table 1). In our opinion, public debt is attracted for the following purposes:

- To ensure macroeconomic stability and improve the sovereign credit rating of the country;
- To implement and finance large-scale investment projects;
- To restore and develop social infrastructure;
- To cover the budget deficit;

- To restore the economy during emergencies;
- To meet the capital needs of the corporate sector of the economy, among others.

External debt plays a positive role in the development of the national economy, and in our view, this can be explained by the following points:

Firstly, through the attraction of external debt by the state, it becomes possible to enhance production processes in economic sectors where financing through internal resources (under conditions of insufficient budget revenues) is difficult;

Secondly, by attracting additional financial resources, it is possible to prevent increasing social instability and reduce poverty, ensure employment, and strengthen targeted social protection measures;

Thirdly, by developing regional infrastructure, national income can be distributed more equally among regions and economic entities;

Fourthly, increasing the country's investment attractiveness creates a foundation for foreign investments to flow in;

Fifthly, the development of production infrastructure and the introduction of modern innovative technologies are ensured;

Sixthly, the development of the national capital market using modern instruments fosters international integration processes.

In foreign literature, there are various approaches to managing public debt. Each of these approaches is based on the practices of the countries studied by scholars. This is not coincidental, as economists have proposed specific management mechanisms based on a country's internal capabilities, level of macroeconomic development, development of the financial market, dependence on external economic factors, and the level of economic development.

Table 1

Types of Public Debt and Reasons for Their Emergence

Causes of Origin	Type of loan	Positive consequences	Negative consequences
budget deficit, stimulation of economic growth, regulation of inflation	Domestic loan	covers the budget deficit, develops the financial market, strengthens the Central Bank's instruments	interest rates increase, negatively affecting the private sector
need for investment, demand for foreign currency, prospective development projects	External loan	increases foreign exchange reserves, increases technology and experience, develops infrastructure	exchange rate pressure, sensitivity to external interest rates, increased debt dependence
short-term liquidity problems, increase in current expenditures	Short-term	allows for rapid decision-making, ensures continuity of public services	need to repay in the short term, interest payment pressure
financing strategic projects, planned investments	Long-term	enables sustainable development, implementation of government programs	increase in the debt burden in the future, not always achieving high results on long-term projects
support for private sector projects	Guaranteed loan	encourages investment	risk of non-return - is borne by the state

Based on the study of these approaches, we will attempt to outline their common features. In our opinion, the management of public debt should be carried out according to the following criteria:

- Timely fulfillment of all obligations on the principal and interest of the attracted funds;
- In determining the amount of repayments, consideration must be given to the current macroeconomic situation when forming public debt;
- Diversification of the composition of internal and external debt and ensuring financial independence;
- Allocation of attracted funds across relevant sectors and industries, presentation of expected returns, and provision of transparent information regarding all operations;
- Assigning special functional responsibilities to study public opinion on the use of debt resources.

As mentioned above, the methods of managing public debt depend on the state's debt management policy, where agreements on debt obligations are executed based on mutual agreements between the parties.

In addition, in cases of failure to meet debt obligations on time or unjustified delays, legal measures are applied both at the international and national levels, as provided by regulatory legal documents.

Moreover, in order to ensure the effective management of public debt and the country's solvency, a method of introducing changes to the debt policy through debt restructuring is also applied.

Debt restructuring refers to obtaining additional time to repay the debt or a part of it. Of course, the process of debt restructuring is implemented based on additional agreements between the creditors and the debtor state.

Sources of public debt financing are divided into external and internal sources, which differ in terms of crediting and financing features. Public debt is financed from the following sources:

- Assistance provided by alliances jointly established by specific countries;
- Preferential loans from major international and regional banks;
- Preferential loans and financing instruments provided by the Asian Development Bank (ADB).

Sources formed on the basis of credit for public debt include:

- Loans from the IMF, ADB, World Bank, and regional banks and funds;
- Loans from foreign governments;
- Borrowings from international capital markets;
- Borrowings from the Eurobond market, among others.

In international practice, domestic public debt is considered one of the key tools for redistributing income among the population. This is because, as shown by international experience, government securities are seen as instruments with either no risk or minimal risk, equal to the risk-free rate.

Table 2.

Main Features and Methods of Public Debt Management

Method	Description	Explanation
Refinancing of public debt	Repayment of interest and principal on loans by placing new instruments or at the expense of additional financial resources from financial institutions	This method is usually viewed as a drawback in the use of debt funds, but it ensures that the state makes payments on its obligations in accordance with the terms of the contract.
Unification	Consolidation of several debt securities previously issued by the state into one type	This allows for the consolidation of payments on the basis of bonds issued by the state, treasury bills and certificates, or vice versa.
Change of terms	Amending the terms of payment between the parties	This method prevents the loss of "confidence" in payments and the

		emergence of obligations for additional penalties.
Moratorium	Delaying payments by amending relevant decisions and regulatory documents	This involves a special decision by the government for specific reasons and a postponement of the payment period for internal and external debts to creditors for a certain period.
Write-off	Reaching an agreement with creditors on partial or full write-off of debts	This method is understood as an agreement with creditors to waive a certain part or all of the debts due to social crises, default, war and other political reasons in the state.
Securitization	Exchanging debt obligations for bonds	This method has a high level of risk, and the main collateral is a mortgage, car loan, leasing, etc. A financing mechanism is created based on third-party obligations.
Prepayment	Premature payment is made in accordance with the agreements agreed upon in the terms of the contract on external and internal loans	In this method, debt payments are made in advance in order to save on state budget expenditures and reduce the burden of future expenditures.

CONCLUSION

At the current stage of reforms in the development of New Uzbekistan, special attention is being paid to transforming the country into an equal participant in the international financial market and obtaining a sovereign international credit rating. By attracting financial resources from the international capital market, Uzbekistan aims to launch large-scale investment projects, address social issues effectively, create additional new jobs, and develop the institutional and organizational foundations of the capital market.

The effective management of public debt is one of the most pressing issues not only in our country but also in many foreign states, as it plays a crucial role in regulating the economy and ensuring sound debt policy. Among the key tools for managing public debt efficiently are the country's monetary, credit, and fiscal policies. Proper implementation of these policies by the government allows for the effective use of public debt in both the short and long term.

According to the methodology proposed by the International Monetary Fund (IMF), the World Bank, and other international documents, one of the preliminary approaches to assess debt sustainability is to calculate its ratio to Gross Domestic Product (GDP). However, many researchers argue that this indicator alone may not adequately reflect the real state of external debt. Therefore, they emphasize the necessity of using additional macroeconomic indicators for a more accurate evaluation. At the same time, comparing the ratio of public debt to GDP with that of other countries is recommended for assessing the debt burden.

International research shows that, in addition to establishing a single megaregulator for debt management, it is essential to ensure integrated cooperation among all relevant ministries involved in the economic complex. This is because the primary goal in managing public debt and developing a debt strategy should be to enhance efficiency based on the development of the economy's various sectors in a comprehensive manner.

REFERENCES

1. Oussama Elkhalfi, Rachid Chaabita, Mounir Benboubker, Mousaab Ghoujdam, Kamal Zahraoui, Hicham El Alaoui, Sara Laalam, Ismail Belhaj, Hind Hammouch, The impact of external debt on economic growth: The case of emerging countries, Research in Globalization, Volume 9, 2024, 100248, ISSN 2590-051X, https://doi.org/10.1016/j.resglo.2024.100248.
2. Keshmeer Makun. External debt and economic growth in Pacific Island countries: A linear and nonlinear analysis of Fiji Islands//The Journal of Economic Asymmetries, Volume 23, June 2021.
3. Irfan Qureshi, Zara Liaqat. The long-term consequences of external debt: Revisiting the evidence and inspecting the mechanism using panel VARs//Journal of Macroeconomics, Volume 63, March 2020;
4. Samson Edo Nneka, Esther Osadolor Isuwa, Festus Dading. Growing external debt and declining export: The concurrent impediments in economic growth of Sub-Saharan African countries.//International Economics, Volume 161, May 2020, Pages 173-187.
5. Vesna Georgieva Svrtinov, Olivera Gjorgieva-Trajkovska, Vlatko Paceskoski. External debt as a fundamental problem for the countries in development in the world economy//International Journal of Sciences: Basic and Applied Research (IJSBAR) 18(2):20-28, November 2014
6. Vahobov A., Malikov T. Moliya. // Darslik. – T.: "Noshir", 2011. 478-b.
7. Sheraliyev J.J. Koronavirus pandemiyasi davrida Oʻzbekiston Respublikasi davlat qarzi barqarorligini ta'minlash yoʻllari 2020 y.
8. Budget Code of the Republic of Uzbekistan dated January 1, 2024.
9. Law of the Republic of Uzbekistan "On State Debt" dated April 29, 2023. No.836
10. Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 82 dated December 14, 2018 "On measures to organize the circulation of state treasury obligations and bonds" No. 1016