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FULL LENGTH ARTICLE

Analysis of the Dynamics of the State External Debt of the Republic of Uzbekistan

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ABSTRACT

This article examines the theoretical aspects of the external debt of the Republic of Uzbekistan. The study analyzed the dynamics of the state external debt of the Republic of Uzbekistan, its structure and creditors and the distribution of external debt by industry. The article also examines the reasons for the increase in public debt and develops strategies for further reducing the state external debt.

Keywords: Public debt ▪ External debt ▪ Internal debt ▪ External debt management ▪ State budget

1. INTRODUCTION

External debt is an important tool for financing economic development, especially in countries with transition economies such as Uzbekistan. In recent years, Uzbekistan has been actively attracting external borrowings to implement large infrastructure and investment projects. This is due to the need to modernize the economy, improve infrastructure and increase competitiveness in the international arena.

An effective system of managing the country's external debt is of paramount importance in the context of developing a market economy, since it allows for the correct use of borrowed funds to meet financial needs and improve the country's socio-economic situation [12].

External debt management can be carried out using various instruments, such as the securities market, the currency market, bank loans, etc. In Uzbekistan, for example, the state budget is the main source of state financing for the country's socio-economic development. However, in conditions where the domestic financial market is limited in scale, states use external borrowing to finance priority socio-economic and investment projects.

2. LITERATURE REVIEW

In modern economic theory, public debt is defined as the sum of the budget deficits accumulated in a country over a given period minus the accumulated budget surpluses, or surpluses [1].

Public external debt is one of the types of public debt. According to the fourth paragraph of Article 3 of the Law of the Republic of Uzbekistan "On Public Debt," adopted by the Legislative Chamber on March 29, 2022, public debt is the obligations of the Republic of Uzbekistan arising from internal and external borrowings [7].

The definition of the term "external debt" also has several semantic interpretations. In particular, according to the International Monetary Fund, the concept of "external debt" refers to debt obligations of a resident to a non-resident and includes the principal amount of debt, as well as interest, but does not include contingent liabilities that may arise later [14]. External government debt includes state and government-guaranteed debt and loans from international financial organizations.

Today, there are several theoretical approaches to the consequences of public external debt for the economy. These

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include classical theory, the theory of "functional finance," crowding-out theory, the theory of Ricardian equivalence, the theory of tax equalization, and the fiscal theory of prices.

The classical theory of public debt was formed on the basis of the works of A. Smith, D. Ricardo, T. Malthus, J. B. Say and others. The classical theory is based on a negative attitude towards public debt.

Adam Smith, one of the founders of classical economic theory, addressed the issues of public debt, including foreign debt, in his work. Smith believed that excessive public debt, especially foreign debt, could be harmful to a country's economy. He argued that interest on foreign debt was a deduction from national income, which could weaken the country's economic position [10].

Smith also emphasized the importance of economic freedom and minimizing government intervention in the economy. He believed that the market itself was capable of regulating economic processes through the mechanism of the "invisible hand," and that excessive borrowing could disrupt this natural order.

David Ricardo believed that a significant accumulation of government debt could have negative consequences for the economy. He argued that servicing the debt would require raising taxes, which could reduce investment and slow economic growth.

Ricardo wrote that "it is not the payment of interest on the national debt that oppresses the country, and it is not the abolition of this payment that will bring relief to the country. Only by saving income and abstaining from expenditure can the national capital be increased. With the liquidation of the debt, income would not increase and expenditure would not be reduced."

According to the Barro–Ricardo equality hypothesis, covering the budget deficit by increasing government borrowing should lead to the need to repay it in the future, the source of which should again be taxes. In the modern interpretation, equality implies the need to achieve equality between the present value of government spending and the present value of tax revenues [2].

John Maynard Keynes did not write directly about foreign debt, but his ideas about public debt and economic policy can be applied to this topic.

Keynes argued that during periods of economic downturn, the government should actively use fiscal policy to stimulate aggregate demand. This involves increasing government spending and cutting taxes, which can lead to an increase in government debt. However, Keynes believed that this approach was justified if it helped restore economic activity and reduce unemployment [5].

External debt, as part of the total public debt, can be considered in this context. If borrowing abroad contributes to economic growth and stabilization of the economy, then it can be justified from the point of view of Keynesian theory. It is important that such borrowing is used effectively and contributes to the long-term development of the economy.

John Stuart Mill, one of the leading classical economists, believed that public debt, especially foreign debt, could be justified in certain situations, such as war or major public projects that brought long-term benefits. However, he warned that excessive accumulation of debt could lead to economic hardship, as servicing the debt required significant resources that could be used for other purposes. Mill also stressed the importance of responsible debt management and the need to ensure that borrowing was used effectively and brought real benefits to society [9].

Leroy-Beaulieu argued that foreign debt could be a useful tool for financing large projects and stimulating economic growth, especially in developing countries. However, he also warned of the risks of excessive debt accumulation, which could lead to financial instability and dependence on foreign creditors.

He stressed the importance of responsible debt management and the need to ensure that borrowing was used effectively and brought real benefits to the economy. Leroy-Beaulieu believed that debt should be a tool for development, not a burden for future generations [8].

David Hume, an 18th-century Scottish philosopher and economist, made significant contributions to the understanding of foreign debt. In his writings, he emphasized the importance of balanced trade and warned against excessive borrowing from foreign creditors. Hume believed that large foreign debts could lead to economic instability and dependence on other countries. Hume also emphasized the importance of economic self-sufficiency and sustainability, which remains an important aspect of economic policy today.

Irving Fisher, an American economist of the early 20th century, made significant contributions to the theory of foreign debt and its impact on the economy. He is known for his work on the theory of interest rates, inflation and deflation, and the analysis of debt crises.

Fisher developed the concept of the "debt-deflation spiral," which explains how excessive debt can lead to deflation and economic recession. According to his theory, when debt levels become too high, debtors begin to sell off assets to pay off their debts. This causes asset prices to fall, which in turn increases the real value of the debt and causes further sell-offs. This process can lead to an economic depression. Fisher also emphasized the importance of debt management and warned against over-borrowing, which remains true in today's economic environment [4].

Economist Abba P. Lerner proposed the theory of functional finance, according to which the government should actively use fiscal-monetary policy to achieve macroeconomic goals and can use borrowing to finance the budget deficit. Lerner argued that debt itself is not a problem if it is used effectively and promotes economic development. The important aspect is the ability of the government to manage debt in such a way that it does not lead to economic instability or excessive inflation.

Modern economists actively study the issues of external debt, its impact on economic stability and development of countries. Famous economists who have contributed to this area include Carmen Reinhart and Kenneth Rogoff, Maurice Obstfeld, Paul Krugman, and others [13].

In their book *This Time Is Different: Eight Centuries of Financial Folly*, Kenneth Rogoff and Carmen Reinhart conducted an extensive analysis of financial crises over the past eight

centuries and concluded that external debt often causes economic turmoil, especially in developing countries. Rogoff and Reinhart showed that high levels of external debt can lead to defaults and economic crises when countries are unable to service their debt obligations [3].

Maurice Obstfeld, together with Paul Krugman, renowned economists, have made significant contributions to the understanding of external debt and its impact on the global economy [6].

Obstfeld and Krugman point out that excessive external debt can make countries vulnerable to sudden changes in capital flows. This can lead to financial crises, as has happened in the past. They emphasize the need for prudent debt management and maintaining sustainable borrowing levels. In their works, they discuss the role of organizations such as the IMF in supporting countries experiencing external debt difficulties and emphasize the importance of international cooperation and coordination to prevent and mitigate debt crises.

3. RESEARCH METHODOLOGY

In the process of research, methods of analysis, synthesis, comparative and statistical analysis, induction and deduction were applied, and Microsoft Office software was used as tools.

4. RESULTS

Today, many developing countries are faced with the problem of increasing external debt.

In recent years, the public debt of the Republic of Uzbekistan has shown a growth trend. According to Figure 1, it can be seen that in 2019, the public debt was 17,834 million US dollars; in 2023 this figure doubled, amounting to 34,927 million US dollars. In relation to GDP, the public debt increased by 7.9% compared to 2019, amounting to 34.4% at the end of the reporting period. According to the current legislation, the level of government debt to GDP should not exceed 60%. Based on this, it is clear that the level of government debt is at a safe level.

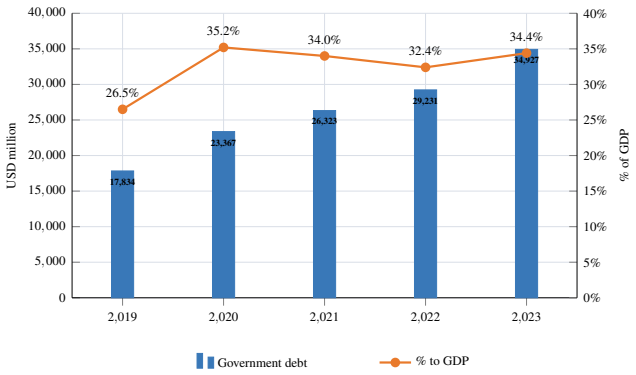


Figure 1. Government debt of the Republic of Uzbekistan.

Source: Compiled by the author from data from https://www.imv.uz.

In the structure of the national government debt, according to Figure 2, the largest share of 88% in 2019 was external debt and a small share—12%—was internal debt.

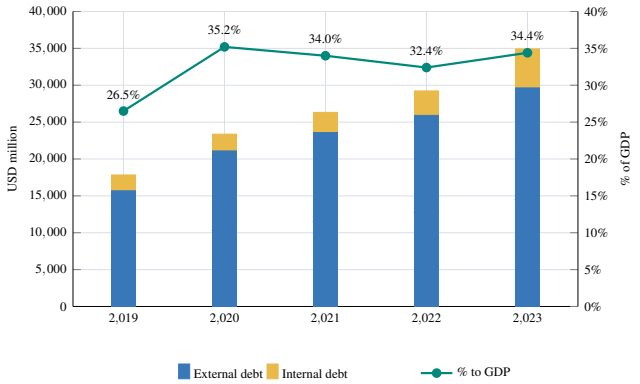


Figure 2. Internal and external debt of the Republic of Uzbekistan.

The data in Figure 2 show that the size of external debt in 2023 compared to 2019 increased twofold, by 15,687 million US dollars, amounting to USD 29,639 million at the end of the reporting period.

Domestic debt also shows a growth rate of almost three times, amounting to USD 5,288 million in 2023. At the same time, short-term debt increased by USD 50 million since 2019, amounting to USD 100 million in 2023.

When considering the structure of external debt information for the period from 2019 to 2023, according to Table 1, it can be noted that in external borrowings, the largest share of more than 50% is occupied by debts received at a fixed rate, which increased from $9,282 million in 2019 by $6,519 million, amounting to $15,801 million in 2023.

The smallest share is occupied by non-interest-bearing debt, which increased from $27 million to $201 million. Floating-rate loans account for 45% of the total share, amounting to $13,636 million in 2023 [11].

Almost the entire amount of external debt is denominated in foreign currency—98% of the total external debt—and the rest is denominated in national currency.

In terms of the urgency of repayment of borrowed funds, the largest share is occupied by long-term debts, with a repayment period of more than one year—99%.

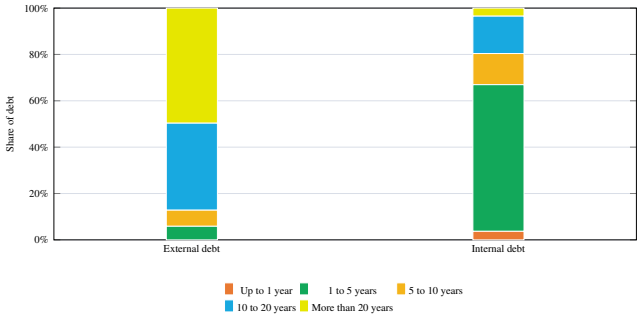


Figure 3. Internal and external debt by repayment terms for 2023.

Comparing the internal and external debt of the Republic of Uzbekistan by the terms of debt repayment, as illustrated in Figure 3, it can be noted that:

- In the external debt, the largest share is occupied by debts with a term of more than 20 years, 14,717 million US dollars; in the internal debt, debts with a term of 1 to 5 years amount to 3,346 million US dollars.
- Debts with a term of 10 to 20 years in external debt amount

Table 1. Types of Public External Debt, in Millions of US Dollars

No.	Indicators	2019	2020	2021	2022	2023
	External debt	**15,687**	**21,093**	**23,582**	**25,914**	**29,639**
1.	At a fixed interest rate	9,282	11,764	13,306	13,815	15,801
	With floating interest rate	6,379	9,170	10,124	11,955	13,636
	Without interest	27	159	153	144	201
2.	Denominated in national currency	0	191	415	401	547
	Denominated in foreign currency	15,687	20,902	23,167	25,513	29,092
3.	Short-term	50	50	0	0	100
	Long-term, with a maturity of 1 year	25	4	17	230	786
	Long-term, with a maturity of more than 1 year	15,612	21,039	23,565	25,684	28,752

to 11,124 million US dollars, and in internal debt to 853 million US dollars.

- Only internal loans in the amount of 195 million US dollars were received for a period of up to one year.

In terms of sectors of the state external debt in 2023, according to Figure 4, the main share of 40% is occupied by funds allocated to support the budget, which amounted to 11,738 million US dollars.

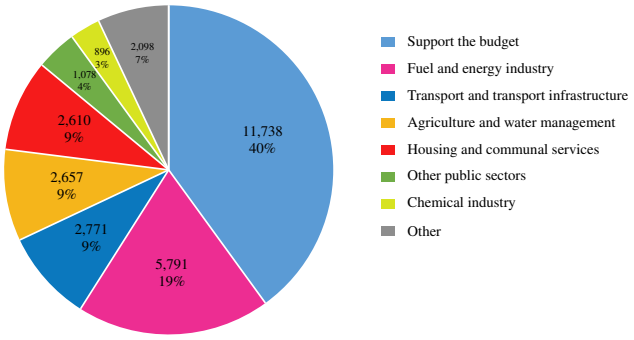


Figure 4. Public external debt by industry for 2023, USD million.

Source: Compiled by the author from data from https://www.imv.uz/static/tarmoqlar.

The following industries take up the next share: 19% for the fuel and energy industry; 9% each for transport and transport infrastructure, agriculture and water management, and housing and communal services. The smallest share of 3% is occupied by the chemical industry, which amounted to 896 million US dollars.

In value terms, the fuel and energy industry amounted to 5,791 million US dollars, transport and transport infrastructure to 2,771 million US dollars, agriculture and water management to 2,657 million US dollars, housing and utilities to 2,610 million US dollars, and others.

The main sources of the public external debt of the Republic of Uzbekistan are funds received from international financial institutions, financial institutions of foreign governments and investors, which can be examined in detail in Table 2.

The main international financial institutions in the period from 2019 to 2023 are the Asian Development Bank and the World Development Bank. At the same time, external loans in 2023 from the Asian Development Bank amounted to 6,441 million US dollars, the World Bank 6,570 million US dollars, and others.

The dynamics of external borrowings by credit institutions shows a growth rate in 2023 compared to 2019 of 1.7 times for the Asian Development Bank and 2.4 times for the World Bank.

Among the financial institutions of foreign governments, the largest share of borrowed funds is occupied by Chinese banks, the growth rate of which over the past five years amounted to 1.1% (2023—3,775 million US dollars), and the Japan International Cooperation Agency, the growth rate of which was 1.2% (2023—2,359 million US dollars). A decrease in debt is observed in the State Bank of Spain by 8 million US dollars, amounting to 81 million US dollars. On the part of the French agency, the amount of borrowed funds was almost doubled, amounting to 828 million US dollars.

Table 2. Distribution of External Debt by Creditors, Million USD

P/P	Name of the indicator	2019	2020	2021	2022	2023
	State external debt, total	**15,687**	**21,093**	**23,582**	**25,914**	**29,639**
1.	**International financial institutions**	**7,448**	**10,057**	**10,926**	**13,804**	**16,627**
	Asian Development Bank	3,876	4,985	5,219	6,030	6,441
	World Bank	2,722	3,734	4,327	5,527	6,570
	Islamic Development Bank	749	824	885	904	911
	Asian Infrastructure Investment Bank	0	1	4	570	1,321
	International Monetary Fund	0	397	386	367	811
	European Bank for Reconstruction and Development	1	2	17	132	174
	Other IMFs (Agricultural Development Fund, OPEC Fund and EIB)	100	114	88	274	399
2.	**Financial institutions of foreign governments**	**7,239**	**9,291**	**10,051**	**9,519**	**9,614**
	China Development Bank, China Exim Bank and others	3,349	4,020	4,200	3,965	3,775
	Japan International Cooperation Agency and others	1,935	2,376	2,659	2,300	2,359
	Korea Exim Bank, Korea Economic Development Fund, etc.	749	998	1,019	966	794
	French Development Agency and others	435	682	585	718	828
	Saudi Fund for Development	123	142	141	143	140
	State Bank of Germany	138	147	129	116	114
	State Bank of Spain	81	106	99	80	73
	Other	428	820	1,218	1,230	1,531
3.	**Investors**	**1,000**	**1,746**	**2,605**	**2,591**	**3,397**
	International bonds	1,000	1,746	2,605	2,591	3,397

Source: Data from https://www.imv.uz/static/kreditorlar.

International bonds received from investors were tripled to reach US$3,397 million in 2023.

According to the International Monetary Fund's report on the economies of countries, the public debt of the Republic of Uzbekistan is currently estimated at a "moderate" level.

The following factors influenced the increase in the state external debt of the Republic of Uzbekistan:

- Constant expansion of infrastructure projects in the country. To implement infrastructure projects, the state raises taxes or seeks external debt and investment.
- The period of the coronavirus pandemic had a negative impact on the country's financial and economic policy and ultimately led to an increase in external debt. To support entrepreneurs engaged in small and medium-sized businesses, subsidies were allocated and material incentive measures were taken for vulnerable groups of the population, unemployed people, and others.
- Growth of the state budget deficit. Since 2019, the Republic of Uzbekistan has had a state budget deficit.

5. CONCLUSION

In conclusion, the country's external debt has both negative and positive aspects. Usually, the focus is on the negative aspects—the difficulty of servicing the external debt, the emergence of economic and political dependence on creditors, and the ineffective use of borrowed funds.

However, based on world experience, it can be noted that large-scale infrastructure reforms such as the construction of railways were built on the basis of foreign loans. American industry grew largely on foreign loans (mainly English), and in our time, new industrial countries actively use cheap and abundant foreign sources of loan capital for their rapid economic growth.

It is difficult to balance the negative and positive aspects of external debt, but it is probably possible to conclude that the positive aspects outweigh the negative ones if a country with a shortage of capital uses borrowed funds from abroad so effectively that this does not create difficulties in servicing external debt and high dependence on creditors. The problem of external debt requires special attention and constant monitoring, since it can have a very serious negative impact on the economic development of individual countries of the world and the world financial system as a whole, especially in the long term.

In view of the above, more careful control over the effective management of Uzbekistan's external debt is needed and a comprehensive approach is required, including several strategies to reduce external debt:

1. **Fiscal consolidation:** Reducing the budget deficit by improving the efficiency of government spending and increasing revenues. This may include tax reforms and improved tax administration.
2. **Manage borrowing:** Limit new borrowing and raise funds on more favorable terms. Uzbekistan has already passed a law limiting public debt to 60% of GDP and requiring corrective measures when it reaches 50%.
3. Stimulating economic growth through investment in infrastructure, education and innovation. GDP growth helps reduce the relative debt burden.
4. Reducing dependence on individual economic sectors such as agriculture and mining and developing new industries such as technology and services.
5. **Improved governance of state-owned enterprises:** Improving the efficiency and transparency of state-owned enterprises, which can reduce the need for government guarantees for their debts.
6. Creating favorable conditions for attracting foreign direct investment (FDI), which can reduce the need for borrowing.

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