ANALYSIS OF PUBLIC DEBT POLICY AND ITS EFFECTIVENESS IN UZBEKISTAN

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Abstract: *The article considers the issues of public debt management, the importance of economic growth and reduction of debt servicing costs. The conditions of observance of debt management, the negative impact of public debt on the economy, the issues of borrowing, the effectiveness of borrowing, sources of debt coverage, the impact of borrowing on the socio-economic development of the state are studied.*

Keywords: *debt, deficit, crisis, external debt, mechanism, method, external debt management.*

Introduction

As the President of the Republic of Uzbekistan Sh. M. Mirziyoyev noted in his message to the Oliy Majlis “... we determined the maximum upper limit of the state external debt. The Cabinet of Ministers is instructed to develop draft laws "On State Financial Control" and "On Government Debt" with the involvement of international experts within three months» [1].

The classification of external debt is closely related to debt service and its effective management. Debt service is the total repayment of debt, which includes the payment of principal, interest, commissions and penalties. Debt service ratio is one of the key indicators characterizing the external debt condition. This ratio is expressed as the ratio of the percentage of servicing payments to the debt of the country to the revenues from export of goods and services. This indicator usually characterizes the public external debt and the state external debt. Public debt management includes the following set of actions by the state: to study the market capitalization of loan capital; development of terms and conditions for issuance of new loans; Payment of interest on previously issued loans; conversion and consolidation of loans; setting the money market bond rates; Carrying out of measures on establishment of interest rates on state loans and loans; repayment of previously issued loans.

Analysis of the relevant literature

Early ancient views on public debt focused on its politically oriented features. In particular, public debt was viewed primarily as liabilities in the form of contributions to cover the damage inflicted by defeated countries on warring countries.

Scottish philosopher-economist David Hume has a negative view of the state’s credit policy. In his view, public debt is seen as an alternative to financing the state budget deficit without increasing the tax burden. However, the state’s abuse of the state’s debt policy recognizes that the nation’s debts can be liquidated, and conversely, if this state is not observed, the state’s debts can end the nation’s debts [2].

In this case, D. Yum sees the category of “public credit” as a method of transforming capital from a relatively efficient sector to a public sector that is considered inefficient, which forms the material basis of public debt. [3]

One of the founders of the School of Classical Economists was Adam Smith's position on public debt is based on his views on limiting government intervention in the economy. According to him, the internal and external debt of the state has an equally negative impact on the economy. [4]

David Ricardo sees public debt as a tool to attract internal and external financial resources without increasing revenue to the budget in exchange for increasing the tax burden to finance the budget deficit in times of economic crisis.[5]

Economist Thomas Robert Malthus recognizes debt financing of the budget deficit as a macroeconomic factor in increasing aggregate demand [6].

Jon Stewart Mill acknowledges that attracting “excess accumulated foreign investment” as public debt does not have a significant impact on macroeconomic stability when public investment is effectively invested in the country’s economy. It treats the loan as a voluntary transaction. In a debt relationship, the loan capital is recognized at the discretion of the lender. [7]

According to A. V. Mukabenov, public debt is the aggregate of the state budget deficit for a certain period. [8]

In the opinion of N. Lyushnin, that an increase in external debt leads to an increase in the cost of its servicing, which is financed by public investment in social development or by inflationary tax. [9]

Methodology of research

The theoretical and methodological basis of this article is general economic literature and scientific articles, research of economists on public debt management, discussions with scientists and industry representatives, expert assessments, comparative analysis, conclusions, suggestions and recommendations in relevant areas. In the process of studying the topic, along with general economic methods, special approaches to data structuring were used, such as comparison, aggregation of theoretical and practical materials, and systematic analysis.

For example, a reduction in the tax burden leads to a decrease in budget revenues and, consequently, a budget deficit. A decrease in the tax burden (T) in parallel affects an increase in the personal income (Yd) of taxpayers without changing income and, ultimately, an increase in consumption and savings rates.

$$Y\text{-}T = Y_d = bC + (1\text{-}b)S \qquad (1)$$

Increased consumer demand for goods and services in the economy will affect the growth of production in the short term. This is especially true in an economy where demand is seen as a driving force. As a result, the IS curve is raised to the right and up. In this case, the equilibrium in the money market (LM), expressed by formula (1), shifts to the right and upwards due to short-term growth in production and interest rates.

$$(M/P)^s = (M/P)^d\,(Y,i) \qquad (2)$$

Naturally, there is a shift in the equilibrium (IS) in the market of goods and services accordingly. This can be expressed by the following formula:

$$Y = C(Y\text{-}T) + I(r) + G \qquad (3)$$

An increase in consumer demand in return for an increase in personal income leads in parallel to an increase in the real interest rate and an increase in the demand for money. An increase in interest rates leads to a decrease in investment and a slowdown in the inflow of capital from abroad (shifting from **NFI_1** to **NFI_2**). As a result, there is a decrease in net exports (**$NX(\varepsilon_r)$**), which is functionally related to the growth of the exchange rate and, ultimately, the national exchange rate.

Analysis and results

As a result of the conservative nature of Uzbekistan's foreign debt policy during the years of independence, the level of public debt is moderate in international standards and comparative analysis with other countries. We can see this from the data in Table 1 below.

1- Table

Comparative analysis of public debt to GDP in the Republic of Uzbekistan and globally

Indicators	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*
The share of public debt of Uzbekistan in GDP, in%, ***N(Uzb)***	8,6	7,9	7,1	10,1	11,6	19,7	29,2	30,5	36,1
The share of public debt of the world in GDP, in%, ***N(W)***	79,6	78,3	78,6	79,7	82,7	81,3	81,5	83,3	96,4
The share of public debt of developed countries (G8) in GDP, in%, ***N(G8)***	106,7	105,2	104,6	104,2	106,7	104,5	103,9	105,2	122,4
The share of public debt in GDP of rapidly developing countries, in%, ***N(EC)***	37	38,2	40,3	43,7	46,5	48,1	49,7	53,2	62

Source: information of State statistics committee of the Republic of Uzbekistan.

From Table 1 we can see that during the analyzed 2012-2019, public debt in the Republic of Uzbekistan had a growing trend. The oscillation amplitude of public debt to GDP in this period (2012-2020) was min.7.1% and max. 36.1%. The low rate was recorded in 2014 and has been on a steady growth trend in recent years.

The debt burden in Uzbekistan is low compared to other countries. In particular, the world's gross domestic government sovereign debt is projected to be the lowest relative to world GDP in 2013 at 78.3%, and by 2020 at 96.4%, the highest. This indicator of sovereign debt of the global state and its growth was influenced by the debt of developed countries.

In particular, we can see that in the analyzed period, the debt of developed (G8) countries exceeded 100% of GDP. In particular, the lowest figure in the analyzed period was observed in 2018 (103.9%), and by 2020 this figure is projected to reach 122.4%. It is noted that this is mainly due to the slowdown in economic growth as a result of the global pandemic in 2020, the problems associated with the excessive increase in public spending.

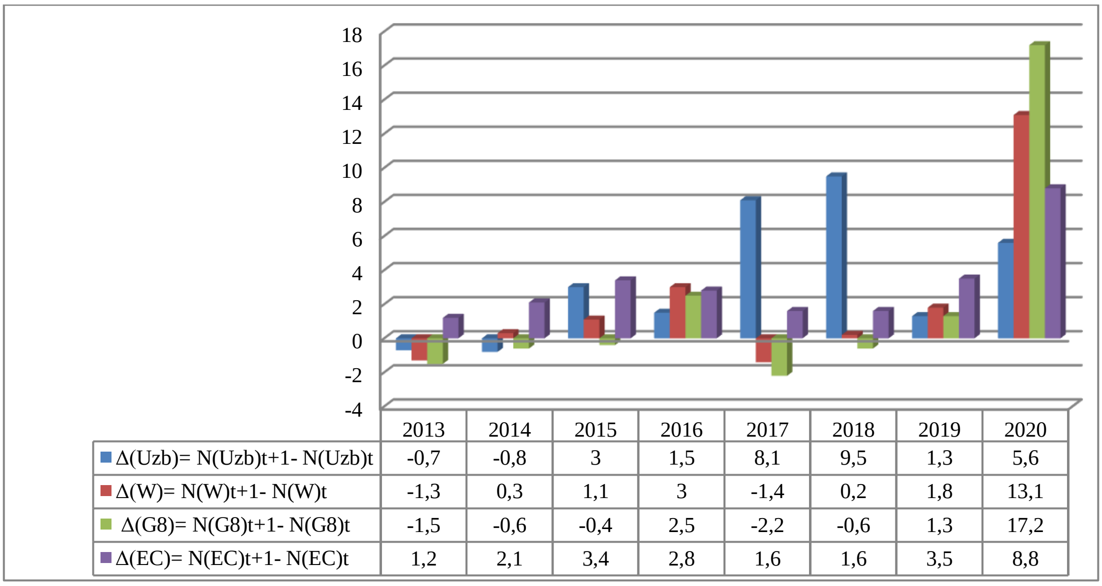
Although the share of public debt in GDP in developing countries was lower than in developed countries (min.37% - 2012, max. 62% -2020), it had a steady growth rate in the analyzed period.

In the general context, although the share of public debt of the Republic of Uzbekistan in GDP is low compared to comparable indicators (high debt burden 36.6%, including the forecast for 2020), their dynamic study trend in Uzbekistan in 2017-2020 shows high growth. This, in turn, indicates the widespread use of active debt policy in attracting foreign investment to ensure economic development of the country in the economic policy pursued on the basis of the Action Strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021. Hence, the conceptual basis of public debt policy in this period is based on the capital-generating theory of public debt.

Static indicators of the share of public debt in GDP will change in the near and medium term, depending on its performance as a result of its annual dynamic trend.

Annual growth (+) or decrease (-) rate of the share of public debt in GDP ($\Delta(Uzb)$) by subtracting the nominal amount of the current year's share($N(Uzb)_t$) from the nominal amount of the previous year's annual growth ($N(Uzb)_{t-}$can be identified.

The indicators for this trend can be seen in the picture below.



	2013	2014	2015	2016	2017	2018	2019	2020
Δ(Uzb)= N(Uzb)t+1- N(Uzb)t	-0,7	-0,8	3	1,5	8,1	9,5	1,3	5,6
Δ(W)= N(W)t+1- N(W)t	-1,3	0,3	1,1	3	-1,4	0,2	1,8	13,1
Δ(G8)= N(G8)t+1- N(G8)t	-1,5	-0,6	-0,4	2,5	-2,2	-0,6	1,3	17,2
Δ(EC)= N(EC)t+1- N(EC)t	1,2	2,1	3,4	2,8	1,6	1,6	3,5	8,8

Picture 1. Annual dynamics of public debt in the Republic of Uzbekistan and globally
Source: Prepared by author's researches.

As can be seen from the table, the highest annual growth rates of the share of public debt in GDP in Uzbekistan are observed in 2017 (6.9%), 2018 (9.5%) and 2020 (5.6%). In 2013-2014, the annual decline in the share of public debt in GDP was -0.7 and -0.8%, respectively.

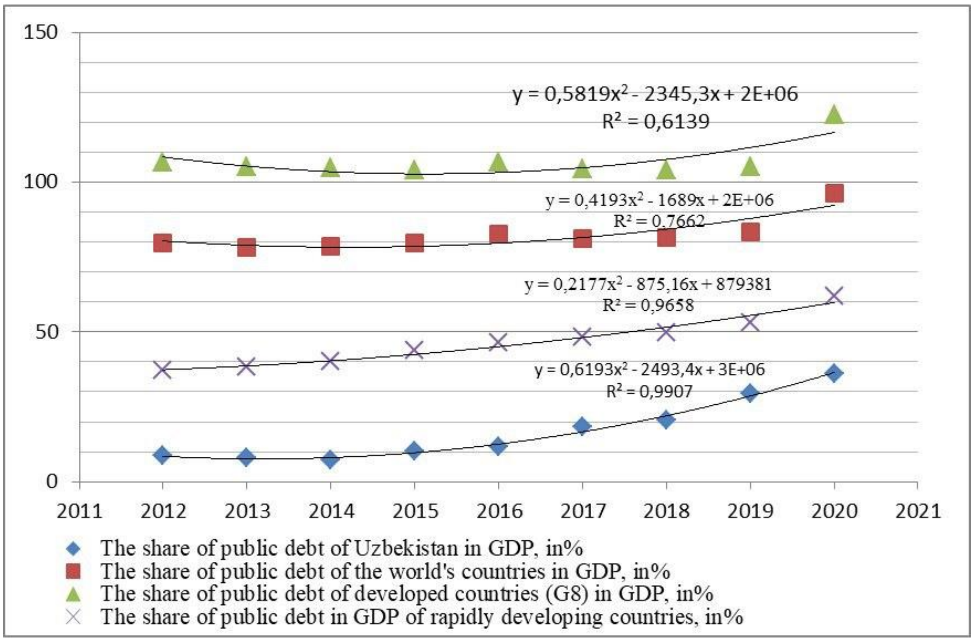
In particular, in 2013-14, on a global scale (ΔW_{2013}=-1,3%), the annual decline in public debt in world GDP was mainly due to the decline in the G8 (ΔG_{2013}=-1,5%). The decline in these years can be explained by the following cases:

First, public debt was formed mainly due to external debt, which accounted for foreign investment and domestic debt in the form of guarantees of the Government of the Republic of Uzbekistan.

Second, the annual decline in the share of public debt in GDP is not due to the process of debt repayment, but to the growth of the nominal volume of public debt, with an annual decline in the share of public debt in GDP.

Problems in the public financial system in developed countries (G8) in the context of the first wave of the global financial and economic crisis (2007-2011), chronic deficits and high levels of indebtedness In the context of the second wave of the crisis (post-2012) was the basis for pursuing a policy aimed at preventing the problem of devaluation (Devaluation-Debt trap).

Therefore, in developed countries, 2013-2015 (2013 -1.5%, 2014 -0.6%, 2015 -0.4%) and 2017-2018 (2017 -2.2%, 2018) -0.6%) years saw a decline in the share of public debt relative to GDP, rather than an annual increase. By 2019-2020, there is a high annual growth rate of the share of public debt in GDP (1.3% and 17.2%, respectively). Based on these data, we can consider the dynamic trends in the share of public debt in GDP through the following picture.



Picture 2. Dynamic trends in the share of public debt to GDP.

Source: Prepared by author's researches.

According to picture 2, the dynamic trend in the change in the share of public debt in GDP in 2016-2020 in Uzbekistan was high and the trend equation was as follows:

$y=0,6193x^2-2493,4x+3E+06$

The coefficient of determination was $R^2 = 0.9907$. This figure is high growth by 2020 in the world, developed and developing countries. In particular, compared to 2019, there was a high change in the share of public debt in GDP in developed countries in 2020, with a low coefficient of determination of the polynomial equation based on a weak decline in the horizontal platform $R^2=0,6139$. Because by 2020 there is a sharp increase compared to 2019.

External debt has been a priority in the public debt policy of the Republic of Uzbekistan since 2010. As a result, public debt formed in the last decade was mainly foreign debt. In practice, short-term government bonds were used as instruments of domestic debt, and these debt instruments served to ensure the actual current liquidity of the state budget by covering the temporary cash gap. The short-term nature of these liabilities has provided an opportunity to fully repay them during the current year.

2-Table

Indicators of public debt policy of the Republic of Uzbekistan, mln. doll.

№	*Indicators*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020 (prognosis)*
1.	External debts of the state	4698,2	5601,2	6475	7600	10016,4	15604,7	15710,1
2.	Domestic debt of the state	0	0	3000,0	4000,0	4800,0	2000,0	5989,4
3.	Gross public debt	4698,2	5601,2	6475	7600	10087,9	15776,5	21700

Source: information of State statistics committee of the Republic of Uzbekistan.

As can be seen from Table 2, from 2018 the Ministry of Finance of the Republic of Uzbekistan began to use the practice of placement of state medium-term treasury bonds of the Republic of Uzbekistan for a period of 1 to 5 years. The state began to focus on the socio-economic development of the country, as well as the implementation of major investment projects, primarily through the financial resources raised through the placement of medium-term treasury obligations. In particular, in 2018, a total of 71.5 mln. In 2020, in exchange for the issuance of state treasury bonds - 147.37 million US dollars. It is planned to issue bonds with a nominal value of 1.4 trillion soums.

Gross public debt in 2014 amounted to 4698.2 mln. USD, and by 2017 it will be 7600 mln. dollars, we can see that mainly the total debt corresponded to the external debt. Also, during the whole period under analysis, external debt has been the main component of the gross public debt. Therefore, improving the external debt management system in the medium and long-term public debt management system is one of the strategic issues.

In attracting external debt, we can see that loans from international financial institutions and foreign countries are of paramount importance in terms of creditors. In particular, by the beginning of 2020, the public debt will reach 21.7 billion soums. USD (36.0% of GDP). Of this, the external debt amounted to 15710.1 mln. USD (25.4% of GDP).

The country's external debt in terms of creditors amounted to 6.7 billion soums. The U.S. dollar is up. At the expense of international financial institutions 7.7 bln. USD and 1.0 bln. USD.

In 2019, the Asian Development Bank was the leader in the sources of external debt in the form of a credit mechanism (a total of $ 3929.0 million), accounting for 51% of total loans from international financial institutions. In addition, the share of loans provided by members of the World Bank Group is 37% and the share of loans of the Islamic Development Bank in loans is 11%.

Conclusion and offers

Thus, it can be concluded that the main share of loans from international financial institutions to ensure the economic development of the country falls on investment loans. This situation serves as a strategic source of funding for the implementation of economic development projects, which will ensure a positive high growth of GDP in the future of the country's external debt policy.

In the context of relatively low debt burden in rapidly developing countries, there is an annual steady growth trend in the share of public debt in GDP.

Government medium-term treasury bonds are intended to be placed mainly with banks and legal entities, are the object of REPO transactions and can serve as collateral for loans. In this process, too, the central bank acts as a fiscal agent, confirming that the loan instrument has contributed to the state budget for the investor.

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