

## Effective public debt management

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**Abstract.** This paper aims to highlight the importance of effective management of government debt and to make a brief assessment of Uzbekistan's public debt structure and dynamic.

**Key words:** Finance, budget, public finance, public debt, public debt management, internal and external public debt, sovereign wealth fund.

Securing and effective management of public debt in the context of accelerated integration of the country into the global financial system under the Strategy of Action on the five priority directions of development of the Republic of Uzbekistan in 2017-2021 will be the basis for sustainable economic growth in the medium and long term development.

In particular, most of the funds raised on or under the guarantee of the Government of the Republic of Uzbekistan are aimed at infrastructure and basic network development projects with projects aimed at improving the living conditions of the population (drinking water and sustainable electricity, housing, education and health projects) oriented. These projects are aimed at creating the necessary infrastructure for economic growth, increasing production capacity, modernization and competitiveness, and developing entrepreneurship in the conditions of high demand for investments in our economy.

At the same time, maintaining the level of public debt at a safe level is one of the key factors in ensuring future macroeconomic stability, and today special attention is paid to measures to improve the efficiency of the public debt management system in line with international standards.

Total public debt in January-September period of 2019 increased by 4.5 billion US dollars or 30.9% to the beginning of the year. After 3 quarters of 2019, public debt including attracted behalf of the Government and state guaranteed debt recorded 19.2 billion US dollars or 33.6% of GDP. In particular, over the past 9 months, public external debt rose up by 3.7 billion US dollars, or by 37.4% year-on-year, amounting 13.6 billion US dollars as of October 1, 2019 or 23.8% of GDP. From:

External debt attracted on behalf of the Government - \$ 9.6 billion. US Dollars;

Government guaranteed external debt - \$ 4 billion US Dollars.

Internal debt of the country surged by 830.9 million US dollars, or 17.3% to the beginning of the period. On the 1<sup>st</sup> October, 2019 total internal debt was 5.6 billion US dollars or 9.9% of GDP. From:

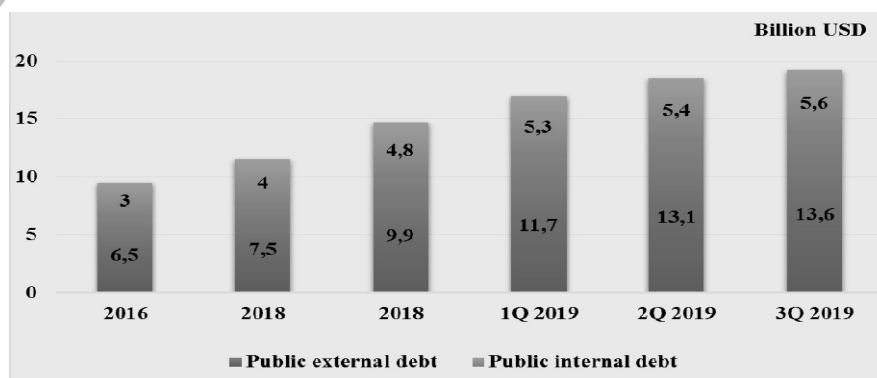
Internal borrowing on behalf of the Government - 1 947 billion UZS;

Government guaranteed debt - \$ 5.4 billion US Dollars.

It should be noted that the recent increase in public debt in our country was not caused by the state budget deficit, mainly due to the attraction of borrowed funds for the implementation of strategically important and urgent social projects. In particular:

- attracting external borrowing on behalf of the Government for projects aimed at improving the living conditions of the population (providing drinking water and sustainable electricity, building standard housing in rural areas, developing education and healthcare, etc.);

- attraction of foreign borrowing funds on state guaranteed preferential terms for large investment and infrastructural projects aimed at ensuring sustainable economic growth and strategically important.



Dynamics of Public Debt Uzbekistan

Despite the growth dynamics of public debt in recent years, the external debt of the Republic of Uzbekistan (33.6% of GDP) and public external debt (23.8% of GDP) remains moderate according to international standards.

#### Medium-term debt management strategy

In cooperation with the World Bank and the International Monetary Fund, a draft Strategy for Public Debt Management of the Republic of Uzbekistan for 2020-2022 has been developed. From the essence of the Strategy, the Republic of Uzbekistan provides for strict adherence to the following priorities in public debt management:

- Financing the government's total debt at the optimum cost;
- Proportionality of expenditures and risks in attracting public debt and diversification of the public debt portfolio.

In the process of developing a strategy:

- The need for debt of the Government of the Republic of Uzbekistan for 2020-2022 has been determined;

- Alternative strategies for financing the government's demand for debt were analyzed;

In 2019, a joint technical mission of the World Bank and the International Monetary Fund visited the Ministry of Finance of the Republic of Uzbekistan to provide technical assistance in the development of a medium-term strategy for public debt management. The mission presented a report on technical assistance to the Ministry of Finance of the Republic of Uzbekistan. Suggestions and comments presented in this report are reflected in the strategy of public debt management, developed by the Ministry of Finance of the Republic of Uzbekistan.

According to the World Bank, by 2030 the Republic of Uzbekistan will join the group of upper middle-income countries. This, in turn, limits the country's ability to access concessional loans and requires commercial financing of its debt.

Therefore, the priority of all alternative strategies is to increase the share of local instruments in total funding sources, gradually attracting government debt on commercial terms, and activating the local debt market. This mid-term strategy provides for annual macroeconomic development of the country and revision of the state budget parameters.

#### Secure public debt for macroeconomic stability

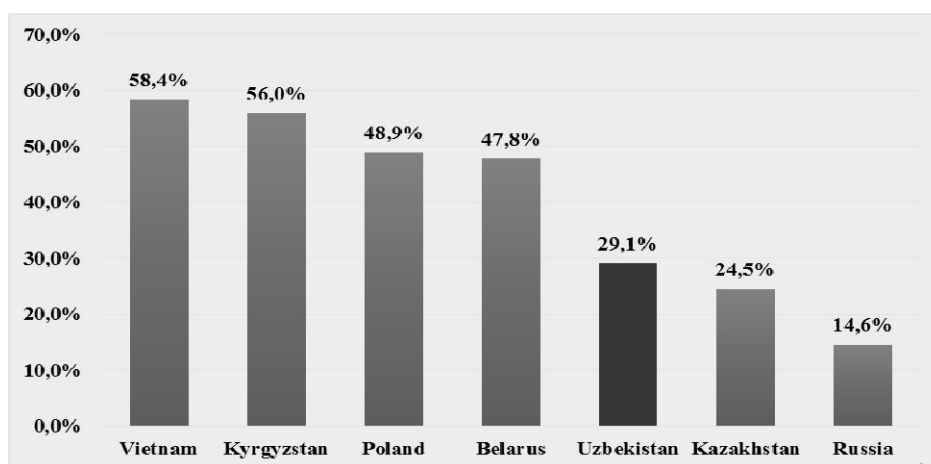
An analysis of the long-term and annual maximum rate of public debt of the Republic of Uzbekistan was carried out on the basis of the International Monetary Fund's Instruction on the Implementation of Fiscal Rules. According to calculations based on the multi-scenario forecast, the level of public debt of the Republic of Uzbekistan for macroeconomic stability is 50% of GDP. When calculating the level of public debt security, it is based on simulated calculations made using macroeconomic, fiscal and foreign trade indicators of the Republic of Uzbekistan for the period 1997-2018.

The maximum value of long-term public debt is defined as follows:

I. The debt threshold recommended by the International Monetary Fund's April 2019 Debt Sustainability Analysis is selected as the maximum limit on which the economy of the Republic of Uzbekistan can carry. According to the debt sustainability analysis, Uzbekistan's ability to repay its debt has been rated "strong." The maximum acceptable rate of debt for the countries included in this group is 70% at present value of GDP and 75% in nominal value.

II. The safe boundary of public debt has been calculated. At the same time, the largest macroeconomic and fiscal factors affecting the level of public debt (GDP growth rate, deficit of the state budget, real exchange rate, real interest rates, external trade indicators, and other government debt deficit factors for the period 1997-2018) scenarios for future periods were created based on the changes in the dynamics and the dynamics of future public debt development under these scenarios. The security threshold ensures that public debt does not exceed the maximum allowable rate (75% of GDP), even in the case of economic shocks.

III. Secure the level of public debt by dividing the security threshold from the maximum allowable standard of public debt.



The ratio of Public Debt to GDP

According to the World Bank and International Monetary Fund classification, the debt service potential of the Republic of Uzbekistan is rated as “strong”, with public debt at 75% of GDP (70% discounted) and public debt at 55% of GDP (50% discounted).

Measures to keep the public debt safe

Based on the level of public debt security, the maximum amount of foreign debt transactions to be signed on behalf of and under the guarantee of the Government of the Republic of Uzbekistan (4 billion USD) was determined and approved by PD-4555 on "State Budget" for 2020. This standard will ensure the long-term sustainability of public debt. Moreover, the maximum amount of external debt attracted on behalf of the Republic of Uzbekistan or guaranteed by the Republic of Uzbekistan and repayment at the expense of the State Budget of the Republic of Uzbekistan should not exceed \$ 1.5 billion USD.

In addition, the Ministry of Finance of the Republic of Uzbekistan will ensure effective management of public debt and effective use of borrowed funds to improve the public debt management system in line with international standards, secure public debt for macroeconomic stability and develop mechanisms for efficient use of borrowed funds. Events are being developed and the changes in Public Debt management will be useful to the future economy of Uzbekistan.

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