Public Debt, Poverty, and Economic Development in Uzbekistan

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Abstract: For the aims of sustainable growth, overcoming the pandemic's negative impact on the economy (preventing a downturn), and recovery, securing stable financing sources is crucial. The government's implementation of an expansionary fiscal policy is key to this process, driving private sector expansion. This paper explores the effects of the government's expansionary fiscal measures and the resulting rise in public debt on the economic landscape. It concludes with proposals for refining the composition of public debt to aid in poverty alleviation.

Key words: external debt, economic growth, state guarantee, governance, public-private partnership agreements.

Introduction.

Policies aimed at decreasing poverty involve a variety of actions and strategies by different entities, including government bodies, aimed at diminishing poverty levels and improving the quality of life for those at risk. These strategies may encompass initiatives like social safety networks, educational and vocational training, incentives for employment, and focused investment in crucial services and infrastructure.

For example, social protection schemes aim to assist the most at-risk individuals through mechanisms like cash handouts, food assistance, and social insurance, helping mitigate poverty, especially during times of economic downturn. Educational and vocational training initiatives are designed to increase employability by providing the skills and knowledge needed for higher-paying positions, which in turn can lead to greater income and social mobility (World Bank, 2013).

Furthermore, policies that are conducive to employment play a significant role in poverty alleviation by generating employment opportunities and encouraging the development of small enterprises and entrepreneurship. This could include specific investments in sectors with potential for high growth and initiatives that improve access to financial services and business support (World Bank, 2021).

Overall, strategies for reducing poverty must tackle the root causes of poverty and be customized to meet the diverse needs of different groups within the population. Effective poverty reduction requires the cooperation of various sectors and stakeholders in crafting and executing policies that promote equitable and lasting development.

Initially, investing in fundamental services and infrastructure, such as water supply, transportation networks, and power, is pivotal for elevating the quality of life and economic possibilities for those in need. Enhanced access to crucial services and the creation of new economic avenues directly contribute to poverty reduction (United Nations, 2023).

Implementing policies that drive inclusive economic expansion ensures the more equitable distribution of the gains from economic growth. This objective can be met by focusing investments on education, social welfare programs, and the enhancement of infrastructure and services (United Nations, 2023).

The development of infrastructure is crucial in the fight against poverty, as it improves accessibility to essential services, spurs the creation of economic opportunities, fosters inclusive economic development, and increases resilience against crises. It enhances access to healthcare, education, and water services, thus reducing expenses and improving the standard of living for economically disadvantaged families.

For example, the expansion of infrastructure boosts connectivity, reduces the costs of transportation, and encourages the growth of new sectors, thereby creating jobs and income for the economically vulnerable segments of society. It supports inclusive economic growth by enabling the expansion of small and medium enterprises, improving access to financial services, and facilitating the creation of value chains, which offer sustained economic prospects for low-income families. Furthermore, infrastructure development bolsters resilience against natural calamities and other unexpected challenges, protecting economically disadvantaged groups and enabling faster recovery (CheneryH. & StroutA., 1966).

Nonetheless, the careful management of public external debt is essential, as it provides a consistent funding source for poverty alleviation efforts and to cover budget shortfalls. Poor management of public debt can place a strain on future generations. High levels of public debt may hinder economic development, affecting employment opportunities and the quality of life for future generations adversely. In addition, excessive governmental borrowing might compete with private sector investments, potentially diminishing the overall investment landscape in the economy and restricting opportunities for future generations (АлехинБорис, 2007).

Uzbekistan's external debt saw a notable rise for various reasons, as reported by UzDaily in 2023. A primary factor is the expansion of infrastructure projects, which necessitated alternative financing methods, such as external borrowing and investments, instead of tax hikes that could spur future economic growth. Additionally, the COVID-19 pandemic and its subsequent effects contributed to a global increase in external debt, with a sharp uptick in borrowing observed in 2020 due to these challenges. Furthermore, the country's budget deficit widened to 3.9% of GDP in 2022, amounting to around 35 trillion soums.

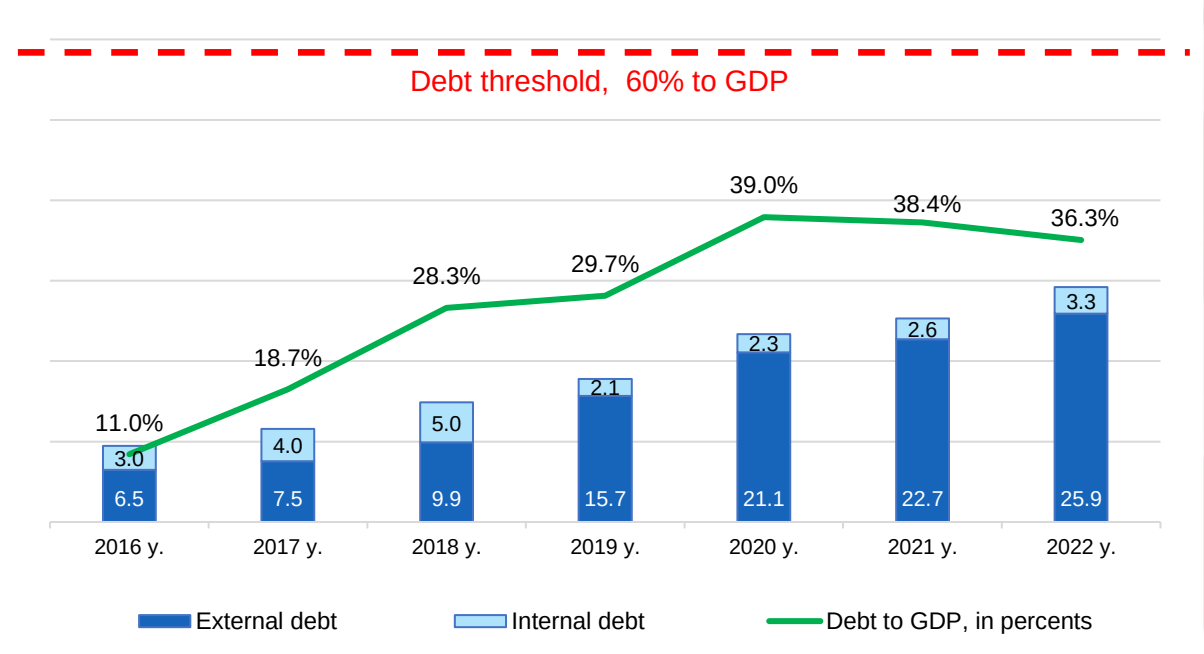

Figure 1. Dynamics of the public external debt of the Republic of Uzbekistan

In response to growing external indebtedness, the Uzbek government has adopted measures since 2020 to cap annual external borrowing through specific budget laws. For instance, the 2023 State Budget Law of Uzbekistan sets a cap on new external debt agreements at 4.5 billion US dollars, illustrating a

strategic approach to managing external debt.

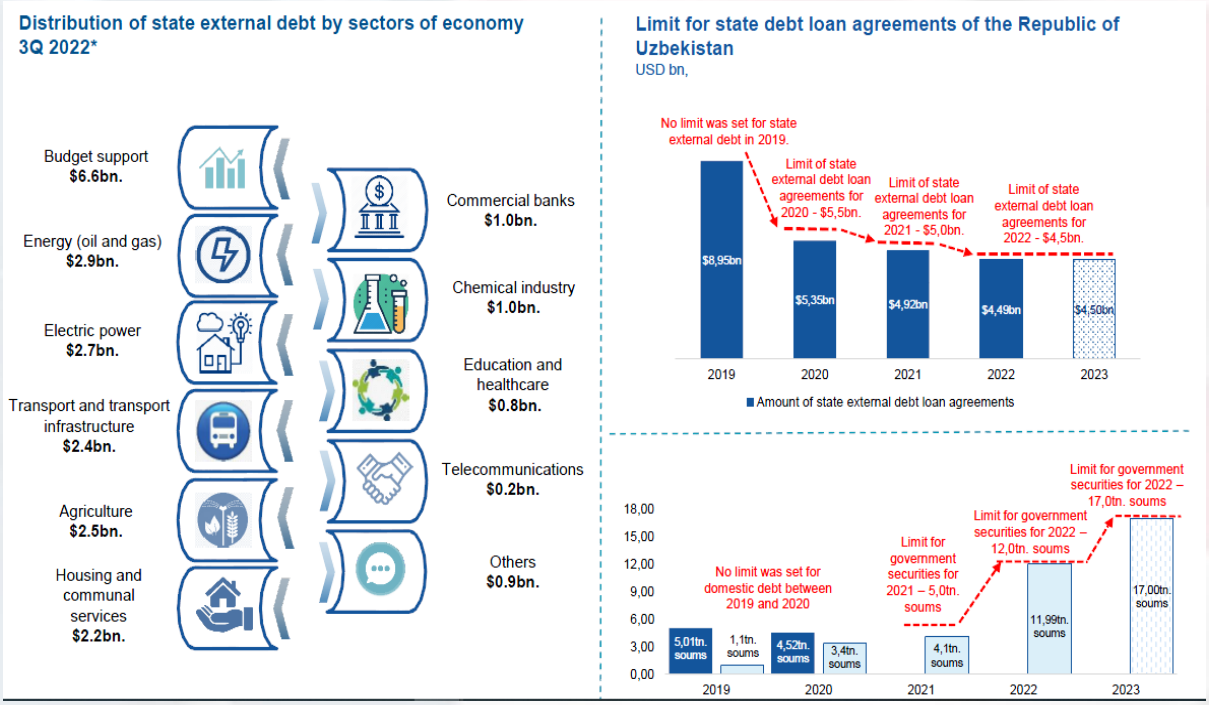

Figure 2. Dynamics of the public external debt of the Republic of Uzbekistan [1]

The connection among economic growth, public external debt, and poverty is complex. While economic growth has the potential to reduce poverty, this outcome is not assured. To make certain that economic growth positively impacts all societal groups, policies that foster equity and social inclusion are crucial; without them, economic growth might actually deepen poverty.

Furthermore, public external debt carries nuanced effects on poverty. It has the capacity to fund investments that could alleviate poverty, including projects in infrastructure, education, and healthcare. Yet, an overload of debt could lead to decreased government expenditure on social services, thereby aggravating the poverty situation.

In summary, though the ratio of state external debt to the GDP is close to 39 percent, it positively influences the nation's economy by supporting expansionary fiscal policy of the government. Consequently, the funds borrowed by the government to finance economic reforms play a crucial role as they serve to modernize and enhance social infrastructure. To maintain the beneficial outcomes of this system moving forward, the following strategies are suggested:

1. Improve project specificity by delegating the management of projects financed by public debt to local government officials.
2. Prioritize directing government debt benefits towards the poor and bolster accountability by issuing government securities under the SDG framework.

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[1] Source : Uzbekistan Republic Finance Ministry : https :// mf . ru / homeActivity / fortune - debt

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