The Characteristics of Government Foreign Debt and Its Influence on Economic Development

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Annotation. This study explores the connection between government foreign debt and economic expansion, with a particular emphasis on the debt's characteristics and its effects. It reveals that the composition, terms, and sustainability of government external debt play a crucial role in determining its influence on economic growth. The research further delves into the levels of debt, debt servicing requirements, and the efficiency of debt management approaches. In conclusion, it discusses the implications for policy and offers recommendations for implementing sustainable debt management techniques to promote enduring economic development.

Key words: external debt, internal debt, outstanding balance, government guarantee, digital economy, public-private partnership agreements.

Introduction.

The main objectives of countries are to improve the standard of living of their citizens by focusing on economic growth and sustainable development (Senadza, Fiagbe, & Quartey, 2018) To address challenges such as financial instability, fiscal deficits, poverty, unemployment and cross-border issues, a country relies on standard macroeconomic policies including monetary policy, fiscal policy, structural policy and engagement with global corporations.

Developing countries are facing the serious problem of high external debt which is a prevailing problem in the global economy (Riffat & Munir, 2018). Each country has its own characteristics and factors such as geography, economy, society and culture that affect its productive capabilities making it unique compared to other countries.

Countries use their available resources to maximize production benefits, with some effectively using these resources to meet their aggregate demand, while others struggle and have to borrow from external sources. Limited resources in developing countries often require external financing options to manage the twin deficits and the double gap between consumption and investment (Soydan & Bedir, 2015).

Since the debt crisis in the early 1980s, policy makers, researchers and academicians have been interested in understanding the impact of external finance on economic growth. The relationship between debt and economic growth has been a widely discussed and complex topic among scholars and policy makers over the past five decades. Numerous theoretical and empirical studies have been conducted to explore various aspects of this relationship, but no consensus has been reached.

Despite extensive research, the question of whether general, public and private external debt affects economic growth remains controversial and lacks consensus among researchers.

The classical school of thought, represented by famous figures such as A. Smith, R. T. Malthus, D. Ricardo, J. S. Mill and J. B. Say viewed debt as a burden on future generations and believed that it had unfavorable consequences. They argued that resource management in the public sector was wasteful compared to the private sector. Consequently, when government borrows, it diverts private capital from

productive uses (private investment) to unproductive uses, resulting in reduced capital accumulation, economic growth and development. Other studies have examined this topic from different theoretical and empirical perspectives (Saungweme & Odhiambo, 2018).

On the contrary, the neoclassical growth theory considers debt as a positive factor directly contributing to economic growth. According to this theory, if a country makes optimal use of debt, it stimulates capital accumulation and investment, which leads to faster economic growth (Bilan, 2016). Diallo (2007) discusses the Keynesian and neoclassical schools of thought on the relationship between debt and growth. Keynesians argue that debt does not burden current or future generations because it stimulates demand and investment, which leads to increased output.

Classical and neoclassical theories of the debt-growth nexus have spawned several other theories, including the double gap theory, the debt overhang theory, the crowding out effect theory, the uncertainty situation theory, the threshold effect theory, and the liquidity constraints hypothesis (Krugman, 1988)

But, the question of whether aggregate, public and private external debt affects economic growth remains highly controversial among researchers and consensus is yet to be reached.

Meanwhile, the theoretical concept of the relationship between debt and economic growth is primarily based on Krugman's debt overhang theory, which emphasizes that investment serves as a key mechanism through which debt affects economic growth. According to this theory, if a country's projected future debt exceeds its ability to repay, expected debt service obligations are likely to increase in proportion to the country's output (Krugman P., 1988).

However, if managed effectively, public external debt can make a positive contribution to economic growth. Access to external financing can facilitate investment in infrastructure, human capital and technology, increasing productivity and competitiveness. Concessional loans and grants, in particular, can support development projects and promote sustainable economic growth. It is crucial for policymakers to strike a balance between using external debt for productive purposes, ensuring debt sustainability, and minimizing the associated risks.

At this stage, the study needs to emphasize reforms aimed at reducing public debt in Uzbekistan. These reforms include:

1) Limiting the use of external debt. In 2020, Uzbekistan passed a law limiting the amount of external debt that the government can borrow each year. The law also limits the maximum level of external public debt to 60% of GDP.

2) Improved public debt management: The government has established a new debt management agency responsible for managing the country's public debt. The agency is responsible for developing a debt management strategy, issuing and managing public debt, and monitoring the country's debt level.

3) Increased transparency of public debt: The government has made public debt data more transparent by publishing it on its website. The data includes information on the amount of debt, the type of debt, the maturity of the debt, and the interest rate on the debt.

In 2022, Uzbekistan's public debt increased by 2.9 billion dollars and amounted to 29.2 billion dollars or 36.4% of GDP. More than 90% of the public debt was attracted in foreign currency.

The surge in the external debt of the state can be explained by several factors. First of all, infrastructure projects are constantly expanding in developing countries like Uzbekistan. To implement these efforts, the government has two options: raise taxes or seek external debt and investment. Developed countries often favor the latter, as raising taxes could potentially hinder future economic growth and stimulus.

Second, the period of the COVID-19 pandemic and its aftermath contributed to an increase in external debt in many countries around the world. In particular, these circumstances have led to a marked increase in debt accumulation from US$17.8 billion to US$23.4 billion in 2020.

Third, the government budget deficit is growing. In 2022, this deficit amounted to 3.9 percent of GDP, approximately 35 trillion soums.

The World Bank has provided projections suggesting that the Uzbek government will continue to adhere to borrowing constraints. According to these projections, by the end of 2024, both public debt and total external debt will gradually decline to 32 percent and 55 percent of GDP, respectively.

In addition to the reforms mentioned above, the government of Uzbekistan is also taking steps to improve the country's economy. These steps include:

Liberalizing the economy: the government is reducing government control over the economy and allowing private businesses to operate more freely.

Attracting foreign investment: The government is working to attract foreign investment into the country.

Improving the business climate: the government is working to improve the business climate in the country by reducing corruption and bureaucracy.

These reforms are expected to help the country's economy, grow and reduce the public debt burden in the long run.

This research paper emphasizes the importance of understanding the nature of public external debt and its implications for economic growth. The findings highlight the need for policymakers to adopt sustainable debt management practices and formulate policies that optimize the allocation and use of external debt resources. By promoting transparency, accountability, and a robust debt monitoring system, governments can reduce the risks associated with excessive external debt and promote long-term economic growth. Future research should further explore the specific mechanisms through which public external debt affects different sectors of the economy and identify best practices in debt management that are appropriate for different country contexts.

The results of the study suggest that the government of Uzbekistan should improve the quality of PSM to ensure that external debt growth has a positive effect. This can be achieved through structural reforms aimed at public sector reform, tax reforms, and strengthening debt management capacity.

Refereces:

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