

Factors Leading to External Debt in Uzbekistan

Musaev Rakhmat Musaevich¹

Abstract

this article analyzes factors of external debts of the Republic of Uzbekistan and provides some related proposals for minimizing and using sensible external debts.

Keywords: *debt, economy, GDP, borrowings..*

¹ Assistant Professor of Samarkand Institute of Economics and Service

Introduction: There are both positive and negative impacts of external debts to the country. The Republic of Uzbekistan has been using external debt for developing its future. According to the presidential decree №79[1] on February 12, 2020, efficiency of programs and projects which were funded by external debts have been improved and provided several benefits to those projects.

Materials and methods

According to Seytmuratov R.A.[2] formation, maintenance and repayment of public external debt can have a significant impact on the state of socio-economic development. This explains the role of external debt in institutional development of the country. Economic contradictions, excess of expenses over income budget deficits can serve as more than just factors that lead to government borrowing, including external borrowing, but also increased spending for their service. Additionally, public debt management issues that may be encountered developing countries in transition are driven by:

- firstly, the need to assess the parameters and restructure the debt. At the same time, the restructuring does not remove the debt problem, but only transfers it to later date. However, the burden of repayment falls on the next generations and its payment amount is increased by additional accrued interest;
- secondly, the lack of application of common methods for managing the external debt. For example, in practice, the debt buyback is carried out on the basis of negotiations with creditors, with the consent of which there is a "reverse purchase" of debt tools on the open market. However, creditors can nominate unacceptable debt repayment limits for the debtor since, according to under the terms of loans, the debtor does not have the right to early repayment of its loans debts.

It is said in the book "Globalization and Poverty"[3] when implementing the debt exchange scheme for shares of national companies difficulties of a different kind arise. This is due to the fact that the conversion of debt into shares it is successful only if it offers foreign investors best assets, including businesses. Therefore, the program is intended for foreign investors it may give an unjustified advantage over local investors when purchase of the most liquid assets.

It is noted by Arthur A. Goldsmith[4] that external debt refers to money borrowed from a source outside the country. External debt has to be paid back in the currency in which it is borrowed. Government and corporations are eligible to raise loans from abroad. These are in the form of external commercial borrowings.

Methodology of the Research

The methodology includes systematic, statistic analysis and graphical methods. Statistics have been made by the help of official sites and resources.

Results

Studies showed that the assignment of debt claims may be problematic. Developing countries' debt to other countries remains significant. On the one hand, there are difficulties in determining the exchange rate. On the other hand, in most cases, debts can be classified as bad. Maximum the amount that can be documented, is 10-15 billion dollars which limits the ability to exchange debts within the framework of the tangle creditors. The reason may be the uncertainty of the debt status: in a number of cases caused by military supply, barter, or not provided for there are rules for making claims in contracts. Moreover, an important problem is the unresolved issue of

sources debt servicing and repayment. In this case, the main source can be use budget funds. However, payments are not taken into account in full in budget, which may be the reason for the adoption of amendments to the budget

Research also showed that it is possible to use gold and foreign currency funds if there is a lack of budget funds Central Bank reserves that the government attracts on refundable and paid terms after making appropriate amendments to the legislation. Affects the amount of basic and additional sources external debt payments export volume is: growth depends on its increase tax revenues to the budget. But even here the severity of the situation is aggravated by the outflow capital abroad. Operational management system is inefficiency factor external debt, the occurrence of which is associated with difficulties in obtaining information and its transmission, while the Ministry of Finance does not meet the procedure providing current indicators on the state of external debt management.

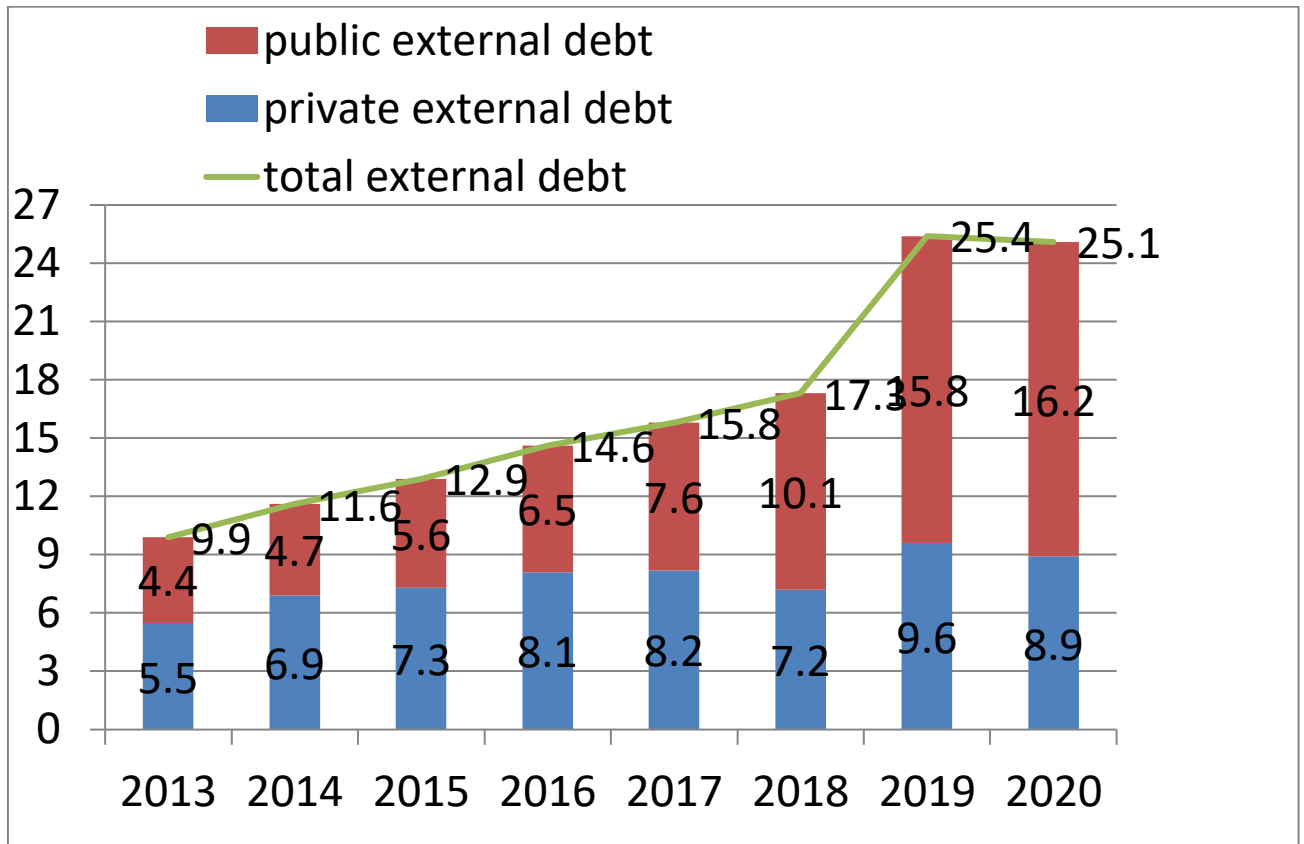
Lack of a unified system for full and reliable accounting of all state debt obligations are carried out by the Ministry of Finance of the country, but their accounting data do not always match. To be fair it should be noted that the information available to the Executive power information about the debt is mostly closed to the public, which causes difficulties in analyzing and therefore developing mitigation proposals debt problems.

Carried research revealed that total external debt can be defined differently. For example, in recent years, the share of Uzbekistan's foreign debt has been rising, and the numbers are changing. Last year it was \$17-19 billion, this year it has exceeded \$25 billion and it is overall debt of the Republic. However, \$ 17.3 billion[5] is public debt, and the rest is private equity debt. In fact, government considers on public debt, since it is a loan that the Republic has received and guaranteed.

A study also has been carried on why the state borrows debts even though it has natural resources and results showed that the Ministry of Finance makes calculations carefully and weighs the issue on two scales. Since, we live in a time of global change, nobody has thought that there would be a pandemic in the world and that would bring some problems to the national economy. Therefore, our state should keep its \$34 billion[6] in reserves so that the public does not get worse. If the state uses all the reserves today and the pandemic lasts long, the state will have to borrow under more difficult conditions and at more complicated interest rates.

According to the results of study which was carried on which country or institution is the largest lender to Uzbekistan revealed that the largest lender to the Republic is the Asian Development Bank[7]. Clearly, foreign debt from this bank is 3.9 billion. In general, Uzbekistan borrows more from financial institutions. It is not secret that Uzbekistan's debt is growing compared to previous years but, if we calculate the debt to GDP, it shows nearly 40% of it[8]. This is overall debt of the state. If it is stated about the external debt of the state, as of July 1, 2020, it amounted to 30.3% of GDP and it is not negative for the state as external debt of some countries is several times higher that GDP[9].

Carried researches revealed that the total external debt of Uzbekistan in the first three months of 2020 amounted to \$25.1 billion[5]. According to the Central Bank, the amount of debt has increased by 2.8% or \$692 million since the beginning of the year and it can be seen in the following diagram:



Conclusion

Summing up, it can be said based on the above given information that external debts are essential in the current state of the Republic of Uzbekistan and public external debt has not any threats for the state as it is not even equal to half of GDP. Moreover, based on the above carried researches following proposals have been made:

- improving policy and institutions that work on external debt spending
- developing flawless and sound economic plans to obtain more and low interest debts
- developing sectors that are underdeveloped at the expense of external debt

References

1. www.lex.uz
2. Seytmuratov R.A./ textbook/ Modernization of society and structural renewal of the economy of Uzbekistan. T.: National encyclopedia of Uzbekistan, 2006
3. Ivanov N., Goffe N., Monusova G., Globalization and Poverty/2010 №9
4. Arthur A. Goldsmith. “Business, Government, Society. The global Political Economy”
5. www.stat.uz
6. www.imf.org
7. According to the official data of the Republic of Uzbekistan
8. www.knoema.com
9. www.worldbank.org