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PUBLIC DEBT AND ITS IMPACT ON ECONOMIC DEVELOPMENT

Ismailova Nasiba Komildjanovna

*Tashkent State University of Economics, Acting Associate Professor,
Department of Finance and Financial Technologies*

Abstract. *This article is dedicated to the socio-economic essence of financial security, its indicators, and the degree of protection of financial interests at the macro level. It analyzes financial security indicators in the country, the current state of public debt, and its impact on the national financial security system. Additionally, attention is given to addressing the existing challenges in the financial security system of the Republic of Uzbekistan.*

Keywords: *economic stability, economic security, financial security, financial security indicators, budgetary security, budget deficit, gold and foreign exchange reserves, investment volume, inflation rate, external public debt.*

State economic security refers to a set of measures aimed at protecting the economic interests of the state and ensuring the stable development and sustainability of the national economy. The main goals and objectives of state economic security include protecting the national economy from internal and external threats such as economic sanctions, financial crises, corruption, and others; ensuring stable and consistent economic growth that contributes to improving the welfare of the population; supporting the competitiveness of the national economy in the global market; guaranteeing the independence and self-sufficiency of the national economy; and preventing and combating economic crimes such as smuggling and fraud. Financial security is an integral component of economic security. In the modern world, many countries face the necessity of attracting borrowed funds to cover budget deficits and finance various programs. This practice can significantly contribute to the growth of public debt and lead to negative consequences, as the size and dynamics of debt directly affect the stability of the economic system, its development potential, and the country's financial security.

Share of Public Debt in GDP (%). As of the end of 2024, the total external debt amounted to \$64.1 billion (55.7% of GDP), of which public external debt was approximately \$33.9 billion (29.5% of GDP), and corporate external debt was \$30.2 billion. According to IMF's Public Debt Guide No. 6, the public external debt includes unpaid interest accrued. The external public debt should not exceed 30%

of GDP. This indicator is considered one of the most important economic metrics for assessing a country's investment security.

According to foreign experts, this indicator determines the level of a country's investment attractiveness. When this indicator approaches a crisis level (approaching I1), it signals a low level of investment attractiveness in the country, which consequently leads to a lack of necessary investments and negatively affects the country's economic growth. Examining the ratio of external and internal public debt within the total public debt reveals that internal debt has been increasing in recent years. This trend is typical for developed countries. The share of external debt relative to GDP should not exceed 30%, and internal public debt should also not exceed 30% of GDP. Overall, the total public debt should not surpass 60% of GDP. In Uzbekistan, as of 2024, this indicator stood at 29.3% for external debt and 5.6% for internal debt, which indicates a normal level. The analytical results above present the total external debt of the Republic of Uzbekistan. The total external debt includes corporate external debt, which we will examine separately below.

Corporate (private) debts increased by \$4.2 billion, reaching \$30.2 billion (26.2% of GDP), while public external debt grew by \$6.6 billion to \$33.9 billion (29.5% of GDP). In recent years, the growth rate of public external debt has slightly slowed, whereas corporate (private) debts have continued to rise. Corporate debts have primarily been attracted by state banks and companies.

A significant portion of the public external debt is allocated for financing investment projects, and the servicing of this debt is carried out from the revenues generated by the implementation of these projects. Most of these loans are long-term and provided at concessional interest rates. The Government of the Republic of Uzbekistan follows a conservative approach and risk management principles when attracting borrowed funds from international financial institutions and foreign government financial organizations.

On February 13, 2019, the Republic successfully issued its first sovereign international bonds on the London Stock Exchange with a total volume of \$1 billion, maturing in 5 and 10 years. Benchmark interest rates were set at 4.750% and 5.375% for the 5- and 10-year sovereign bonds, respectively, and demand for these bonds reached up to \$8.7 billion, reflecting international investors' confidence in the country's prospects.

After supporting the budget, the state external debt is allocated to the fuel and energy sector, agriculture and water management, and housing and communal services sectors, as seen from the table data. It should be emphasized here that reviewing the practice of financing state budget support expenditures through external debt, it is necessary to reduce the share of such expenditures and increase investment projects, primarily focusing on the modernization of social infrastructure facilities and financial support for small and medium-sized businesses. One of the key tasks in ensuring financial security is to assess the situation promptly, accurately, and comprehensively. In cases of high-level crisis

(threatening, emergency), additional indicators are collected, which allows for a deeper analysis of security threats.

Thus, an assessment based on the indicator system of Uzbekistan's financial security shows that there are several shortcomings in the country's financial system. These include:

- The mechanism for managing external debt and strengthening effective control over its targeted spending is insufficient, resulting in corruption risks in procurement processes within the projects being implemented.

- Uzbekistan's international reserves are still poorly diversified, being held almost entirely in two forms — gold and foreign currencies. The dominance of imports in the country's balance of payments negatively impacts financial stability.

In summary, ensuring financial security is crucial for the country because existing problems lead to negative consequences such as an inefficient tax system, insufficient investment in the economy, external debt, capital outflow, and others. All these act as obstacles to strengthening the country's financial independence. Given the current economic situation, Uzbekistan's long-term main goal is economic development and financial security, relying on domestic resources and reserves, and supporting high-tech economic sectors primarily under state participation.

To prevent these risks, the following measures are necessary:

- The Central Bank should continuously maintain inflation targeting, since the formation of short- and long-term expectations among the public and businesses directly depends on adherence to the Central Bank's inflation target discipline.

- Criteria for selecting projects financed by external debt should be improved, considering currency risk, with comprehensive analysis and evaluation of the borrower's ability to repay principal and interest.

- It is necessary to prevent a sharp increase in the negative trade balance between exports and imports, as this negatively affects the country's gold and foreign currency reserves. Foreign currency reserves should be invested in highly liquid and profitable short- and medium-term treasury obligations of foreign states.

- To cover the state budget deficit as much as possible through domestic debt, the Ministry of Economy and Finance of Uzbekistan should collaborate with specialists from the US Treasury and Asian Development Bank to develop the domestic capital market.

- Following the IMF's fiscal rules guideline, a long-term and annual maximum limit on Uzbekistan's state debt should be established.

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