



EFFECTIVE USE OF BORROWED FUNDS FROM THE INTERNATIONAL CAPITAL MARKET: ON THE EXAMPLE OF UZBEKISTAN

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ABSTRACT

The problems in the public debt management system are revealed. The evolution of the problem of the state debt of Uzbekistan, including in relation to private debt, is considered, the risks in the debt sphere are analyzed. Practical proposals for improving the management of public debt have been developed.

KEYWORDS: *Public Debt, Credit, Financial Instrument, Level Of Risk, Infrastructure, Financial Institutions.*

INTRODUCTION

The active integration of the country into the world economy, improvement of the country's sovereign credit rating, attraction of a large volume of foreign investment, as well as the plans of the Government of the Republic of Uzbekistan to liberalize the exchange rate regime, of course, play a decisive role in the sustainable development of the Republic of Uzbekistan. Nevertheless, steps aimed at increasing the degree of openness of the economy, as well as the need to form a full-fledged internal financial market, entail the adoption by the Government and the authorized body for regulation and supervision of the financial market and financial organizations of the Republic of Uzbekistan a number of measures to ensure an adequate level of economic security. Republic, as well as to create conditions for the development of the domestic market for debt instruments.

Firstly, it is a question of correct planning of borrowings in external and internal markets of loan capital, taking into account the provision of the necessary level of stability of the financial sector and the development of sectors of the economy. Secondly, it is the issue of improving the mechanisms of public sector debt management and regulation of the external debt of the private sector in order to achieve the necessary results.

International experience shows that conducting a balanced borrowing policy and taking the necessary measures in a timely manner to strengthen the state's capacity in the field of public sector debt management and regulation of the external debt of the private sector are a very important factor for ensuring a high level of macroeconomic stability in the country.

In world practice, as a rule, many countries have their own strategies for borrowing in foreign and

domestic markets and plans to strengthen their capacity in the field of debt management. These needs are determined by the degree of development of the domestic capital market, the specifics of the exchange rate regime, the quality of macroeconomic policies and regulatory measures, the institutional capacity to design and implement reforms, the country's creditworthiness and its debt management objectives.

LITERATURE REVIEW

The problem of managing the debt burden has been studied within the framework of many schools of economics, whose representatives tried to determine the feasibility and maximum level of debt in terms of its significance for the economy and the ability to service it. In particular, A. Smith believed that the country's debt arises from an increase in government spending, since “great nations ... often become poorer as a result of the extravagance and indiscretion of government” [1]. J.M. Keynes, on the contrary, in order to stimulate aggregate demand and increase production, increase employment and thus ensure economic growth, emphasized the need for public debt [2, p. 348] (a similar approach is contained in the works of representatives of neo-Keynesianism). According to the neoconservative model of government regulation (supported by supporters of monetarism, the theory of supply economics and the theory of rational expectations), in order to reduce the budget deficit, it is necessary to set its maximum parameters.

According to representatives of the “new theory of public debt”, a balanced budget only violates the foundations of economic stability [3]. However, all of the above approaches dealt mainly with the problem of public debt, while issues related to external debt began to be actively discussed only in recent decades. Realizing that attracting foreign investment and new technologies is necessary for the development of any state, it should be borne in mind that an increase in the external debt burden threatens national security. Indeed, countries that are forced to pay off and service a large debt have to undervalue the national currency, thereby stimulating exports [4]. In addition, as S.M.Borisov rightly noted, new borrowings carried out by management bodies are mostly used to service previously received loans [5]. According to L.N. Krasavina, the risks in the field of external borrowing have recently increased due to a change in its structure, an increase in service costs, etc. [6], and the problem of external debt has become global. A stable level of external debt is, of course, established based on the internal and external capabilities of the country. If any country can fulfill its current and future obligations without any exceptions and financial assistance, this level of external debt is stable for the state [7].

METHODOLOGY AND ANALYSIS

Total external debt reflects the liabilities of residents to nonresidents, which require the payment of principal debt and interests. Total external debt includes the debt of government and guaranteed by government (further – government external debt), and non-guaranteed external debt (further – private sector external debt). Total external debt maintains a growing trend. This process is explained, for government debt, by the attraction of new external borrowings to mitigate the socio-economic impact of the crisis caused by the spread of the COVID-19 virus and to finance government programs for the development of industries and region, while private sector debt started to increase mostly due to the growth in borrowings of commercial banks. Also sharp increase in government external debt can be observed from 2019 (Figure 1).

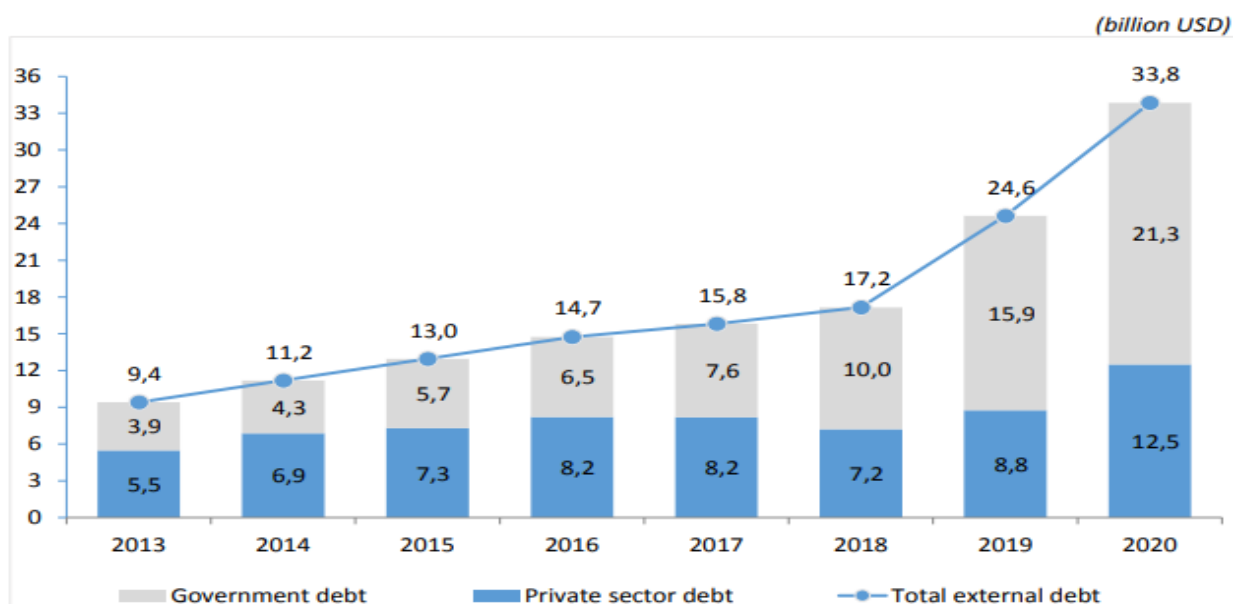


Figure 1. Time series of total external debt of the republic of Uzbekistan [8]

The volume of total external debt of the Republic of Uzbekistan as of January 1, 2021 stood at USD 33.8 billion, showing an increase by 37.4% or USD 9.2 billion in comparison with the beginning of 2020 (Table 1). Increase in external debt of the government sector for 2020 accounted for USD 5.5 billion. Due to new borrowings new external debts and issuing Eurobonds, nominated in sums and in dollars. Liabilities of private sector increased by USD 3.7 billion, due to borrowings of banks.

TABLE 1 STRUCTURE AND CHANGE OF TOTAL EXTERNAL DEBT [9]

(mln. USD)

Sector of economy	External debt as of			Share	Changes for 2020
	01.01.2019 r.	01.01.2020 r.	01.01.2021 r.		
Total	17 159,1	24 632,0	33 841,8	100%	9 209,9
Government external debt	9 950,5	15 869,6	21 346,0	63%	5 476,4
<i>of which:</i> <i>international bonds of the Republic of Uzbekistan</i>	-	1 107,0	1 929,4	6%	822,4
Private external debt	7 208,6	8 762,4	12 495,8	37%	3 733,4
<i>of which:</i> <i>from parent companies</i>	687,8	825,8	911,4	3%	85,6
Shares of sectors in private foreign debt					
Banking sector	978,2	2 920,2	6 280,9	19%	3 360,8
<i>of which:</i> <i>international bonds of commercial banks</i>	-	307,4	937,5	3%	630,1
Oil and gas and energy sector	5 386,5	4 852,3	4 437,3	13%	-415,1
Telecommunications sector	248,2	225,5	193,6	1%	-31,9
Textile sector	132,2	162,7	248,8	1%	86,1
Other sectors	463,4	601,6	1 335,2	4%	733,5

It is important to note that for 2020 the private sector attracted loans in the amount of USD 5.5 billion. Borrowings, mainly, were attracted by commercial banks – USD 4.3 billion, including two banks issued debt securities with overall price of USD 600 million. Oil and gas and energy sector attract – USD 211.8 million, and other sectors of the economy – USD 984.0 million. In addition, during the considered period, the government sector made principal payments in the amount of USD 651.3 million and interest payments in the amount of USD 380.2 million. The private sector made principal debt payments in the amount of USD 2.0 billion and interest payments in the amount of USD 370.8 million. Besides, oil and gas and energy sector enterprises as well as banking sector are making the majority of principal and interest payments (Figures 3).

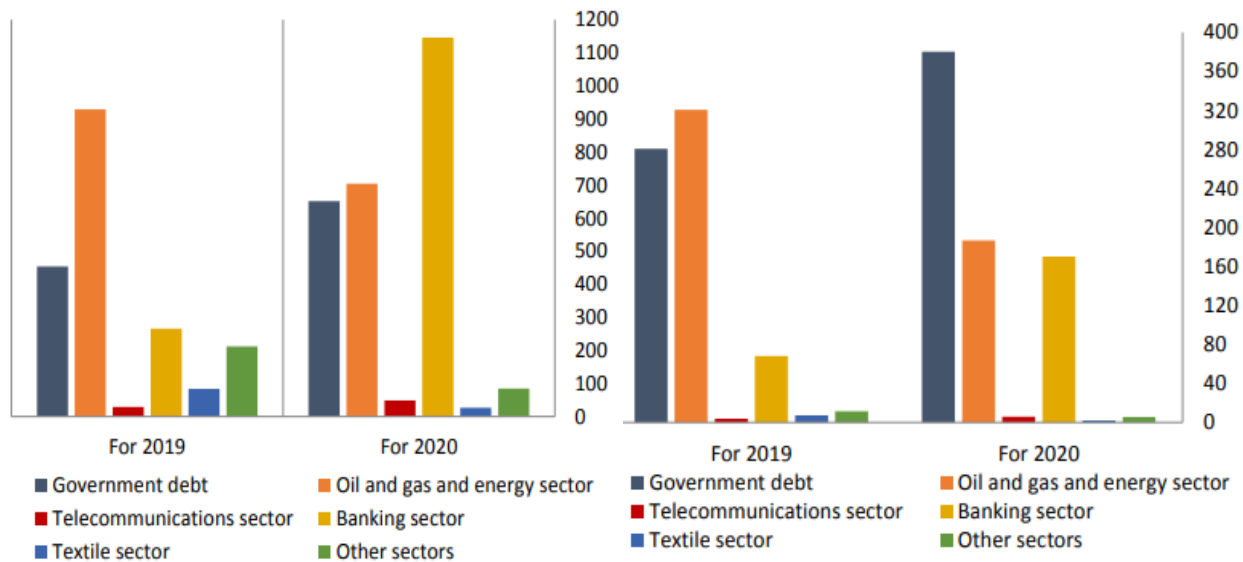


Figure 3. Repayment of principal and of interest by sectors of economy (mln. USD) [10]

In the structure of gross external debt, loans prevail (86%). Liabilities for debt securities and others instruments are at commensurate level. The ratio of external debt to GDP, excluding other liabilities equals 59%.

Directions for improving the public debt management system. There is a need to broaden goals in public debt management. To them you need to add:

- Ensuring stable servicing of both external and internal government obligations in any crisis situation, monitoring of private external debt;
- Flexible response to changing conditions of external and internal financial markets and the use of the most favorable sources and forms of borrowing;
- Increasing the attractiveness of Uzbek public and private borrowers, preventing sharp fluctuations in the price of obligations in the world financial market;
- Forecasting and preventing risks associated with the debt structure;
- Coordination of government policy and the policy of external borrowing of corporations in order to avoid unnecessary competition in financial markets and risks associated with possible default on corporate obligations;
- Creation of a comprehensive effective system of public debt management;
- Improvement of accounting and monitoring of public debt, introduction of advanced technologies for debt management, which make it possible to control the state of the debt burden of the economy and track the progress of fulfilling government obligations in real time.

CONCLUSIONS

External debt, first of all, should be taken as an investment. For example, an ordinary student pays a certain amount while studying at the university. Then, he begins to receive income with the help

of the profession and knowledge that he received for the spent funds. The funds currently spent on improving infrastructure will, after a certain time, begin to serve to increase production and increase exports. We are forced to develop land transport due to limited access to the sea. Without this, it is very difficult to imagine future economic development.

In many CIS countries, the relative parameters of external debt, characterizing the level of its security, exceed not only the recommended, but also the critical parameters, which is evidence of the need to implement urgent measures for debt management. In some CIS countries, special documents are being adopted and programs are being developed aimed at systematic monitoring of external debts and their management. In this regard, it seems advisable to tighten the regulation of corporate debts, primarily of companies with state participation, create conditions for borrowing in the domestic market by modernizing the securities market and reducing the cost of credit resources.

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