Asian Journal of Research in Banking and Finance
ISSN: 2249-7323 Vol. 12, Issue 5, May 2022 SJIF 2022 = 8.558
A peer reviewed journal

PUBLIC DEBT AS A WAY TO INFLUENCE THE ECONOMY

Jiyanova Nargiza Esanboyevna*; Toshmatov Shaxboz Shavkat o'g'li**

*Professor,
Tashkent Financial Institute,
Tashkent, UZBEKISTAN

**Master,
Tashkent Financial Institute,
Tashkent, UZBEKISTAN
Email id: jiyanovanargiza@mail.ru

DOI: 10.5958/2249-7323.2022.00040.2

ABSTRACT

The article discusses the issues of regular control of public debt, indicators affecting the optimal public debt, analysis of internal and external debt, as well as ongoing reforms and measures for the effective management of public debt.

KEYWORDS: *Public External Debt, Public Domestic Debt, Budget Balancing, Debt Policy, GDP.*

INTRODUCTION

According to modern monetary theory, government debt is treated as large private capital, and interest payments on the debt as private income. Public debt is an expression of the accumulated budget deficit in previous years, which added financial assets to the private sector, supplying a demand for goods and services. Adherents of this school of economic thought argue that the scale of the problem is much less serious than is commonly believed.

Government debt is of great concern because interest payments can often place high demands on governments and individuals. This led to calls for universal debt relief for poor countries.

Economics provides a multifaceted view of the public debt. The relationship between debt and the economy is complex and ambiguous. There is no single point of view on the nature of the impact of debt on the economy. The views of macroeconomists on this problem are completely different. On the one hand, public debt as an instrument of state influence on the economy is seen as a negative factor. In this case, preference is given to a complete refusal to finance state expenditures (budget) at the expense of public debt. For example, representatives of monetarism (M. Friedman, I. Fischer, A. Meltzer) opposed the use of public debt as a tool to stabilize the economy. In their opinion, there are no effective short-term and long-term effects from the use of such an economic policy instrument as public debt.

Representatives of the so-called Stockholm school of macroeconomists (G. Myrdal, E. Lindal, and others) proposed the theory of "cyclical balancing of the budget", that is, the adjustment of its income and expenditure to the economic cycle. From their point of view, the budget deficit formed during the crisis and depression should be covered by a corresponding budget surplus during the recovery period following the depression. However, according to the author, they do not sufficiently take into account the time factor of the cyclical nature of the economy, when there is a chronic nature of the budget deficit over a long period, which creates the prerequisites for the need for borrowing. On the other hand, the theory about the need for strong state regulation of the economy, which allows the use of state borrowing, prevails.

As a result of the state's active debt policy, many economists see two main dangers in the growth of public debt. One of them is the probability of the bankruptcy of the state; the second is the danger of shifting the debt burden onto future generations.

For example, the German economists Stein, Ditzel, and Nebenius believed that if the state uses public credit too rarely, it means that it is forced to increase tax rates and takes too much money from its contemporaries, thereby not caring enough about the interests of the population. American scientists K.R. Mc Connell and S.L. The Brew believed that the government would almost always be able to meet its obligations on domestic debt since it could do so by refinancing the debt, issuing money, or increasing tax revenues.

In Uzbekistan, the issues of regular monitoring of the situation related to the structure of public debt, determining its safe limit, and preventing risks in this area are under constant attention.

In any country, there may be a need for borrowing. Such a need arises not only because of the economic crisis but also for the implementation of projects or programs of strategic importance. This, for example, is the creation of infrastructure in the country, poverty reduction, the development of small and medium-sized businesses, strengthening defense, and more. In this case, it is necessary to abandon the intended goals or cover its existing deficit by attracting additional funds that form the public debt.

To cover this debt, there are only two sources: the first is to raise taxes, and the second is to attract other borrowings.

There are no states in the world that would not face the problem of attracting borrowed funds, which increase the public debt. Funds raised from external and internal sources can lead to serious problems for economic stability and the investment climate.

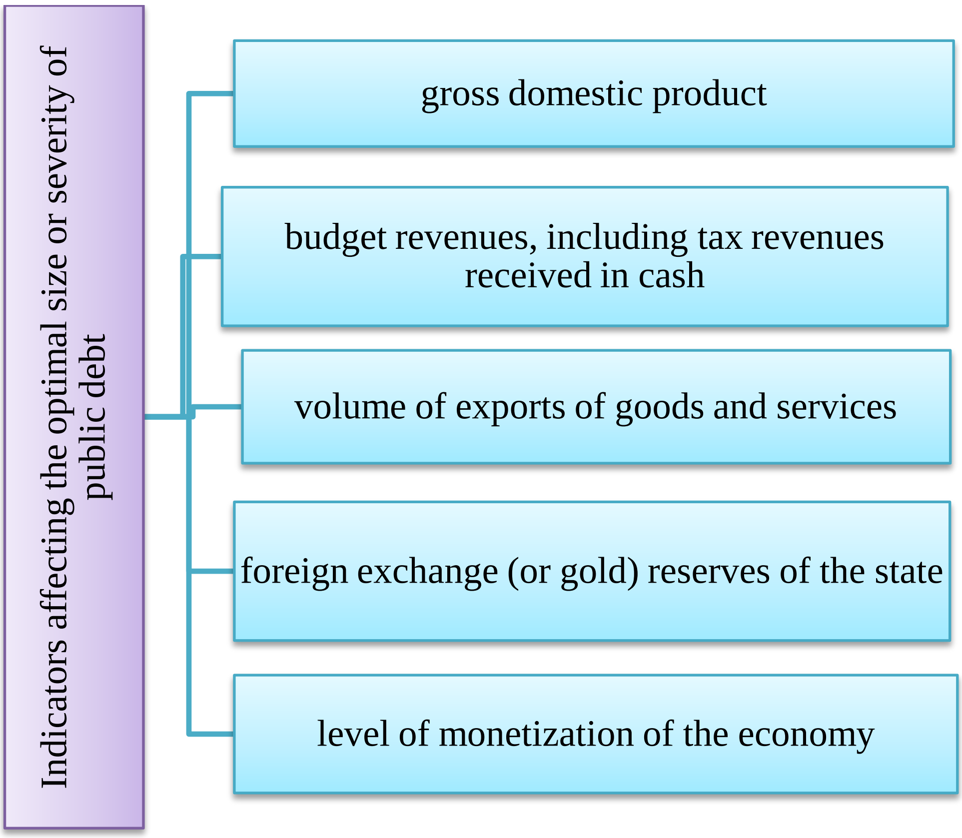

Fig.1. Indicators affecting the optimal size or severity of the public debt

Various indicators are to varying degrees suitable for balance sheet analysis about debt service and debt repayment, on the one hand, and external and domestic debt, on the other hand. The sources of repayment (or, in other words, the security of repayment of the principal amount of the debt) are best characterized by the size of the gross domestic product (GDP), exports of goods and services, and the size of foreign exchange reserves. The sources of interest payments (debt servicing) are determined primarily by such indicators as budget tax revenues and exports of goods and services.

Concerning assessing the security of public external debt, the following indicators are most often used:

• The ratio of the amount of external debt and the volume of exports of goods and services;

• Ratio of external debt to the gross domestic product;

• The ratio of debt service payments to the volume of exports of goods and services.

When assessing the security of domestic debt, the level of monetization of the economy and budget revenues are put in the first place along with the indicator of gross domestic product.

Public debt, and especially external debt, is associated with risks; developed and developing countries use these funds as an important source of economic growth. Uzbekistan is no exception. Over the past five years, public debt, including external debt, has increased markedly. At the end of 2021, the balance of the public debt amounted to $25 billion, or 38.4 percent of GDP. About 90 percent of them are external debt.

One of the main indicators used for an objective assessment of the solvency of any country is the ratio of the volume of its external and internal government debt obligations to GDP or the volume of national exports. Therefore, in the international practice of issuing and repaying financial obligations, relative criteria for the size of public debt are used: first of all, its ratio to GDP, is the main indicator of the financial stability of the state.

In particular, the current level of external public debt (as the main criterion for the country's solvency) should not significantly exceed the maximum possible amount of payments. And this means that the size of the primary surplus of the state budget must necessarily cover the difference between the growth rate of debt and real GDP growth.

In the Action Strategy for 2017-2021, Uzbekistan set itself the goal of solving the social and economic problems that had developed at that time. The tasks to achieve it required additional funds. In conditions when the possibilities of attracting domestic funds for the implementation of reforms initiated by the state are sharply limited, the only hope was to attract funds from outside.

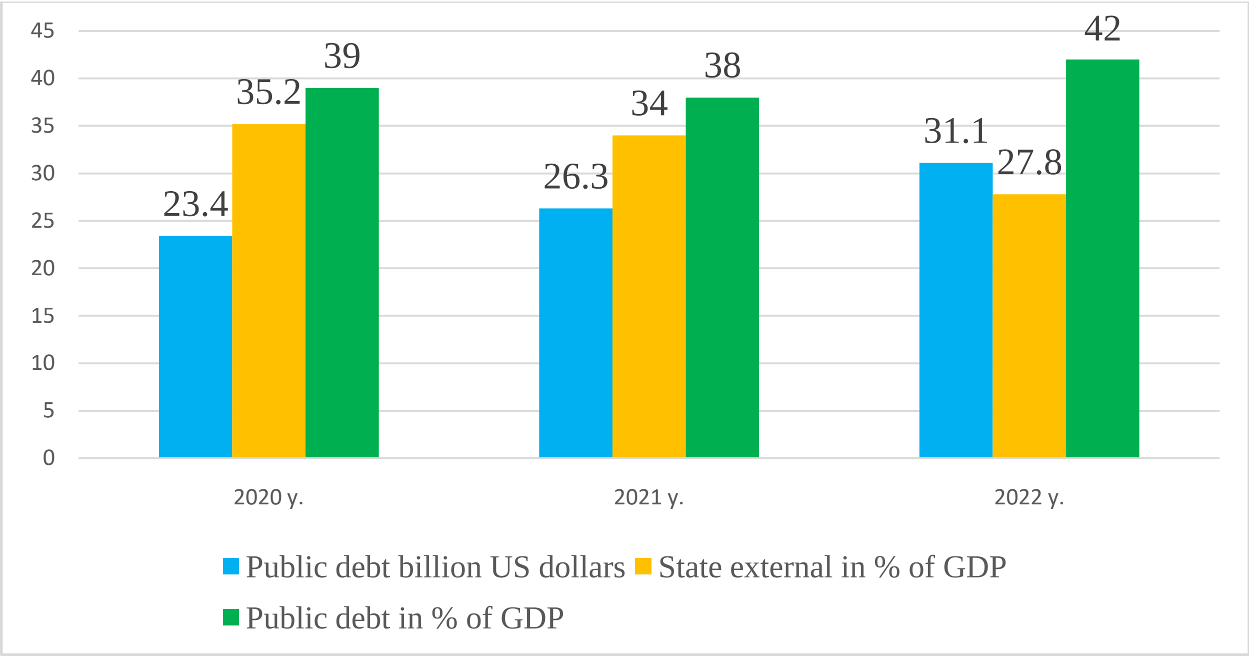

Fig.2. Dynamics of the total public debt of the Republic of Uzbekistan

In turn, the forecast for 2022 of the dynamics of total public debt is $31.1 billion, which is $4.4 billion more than the previous fiscal year.

External debt attracted on behalf of the Republic of Uzbekistan - 17.0 billion US dollars or 72.2% of the state external debt;

External debt under the guarantee of the Republic of Uzbekistan - 6.6 billion US dollars or 27.8% of the country's external debt.

According to the information of the Ministry of Finance, as of October 1, 2021, that is, in the nine months of last year, 19 agreements on external loans and loans worth $2 billion 740.9 million were signed on behalf of and under the guarantee of the Republic of Uzbekistan. Of these, $1.2 billion was directed to support the State Budget, $1 billion 349.3 million - to healthcare, providing the population with drinking water and sewerage, developing animal husbandry, the chemical industry, and implementing other projects of great social and strategic importance. Also, the total value of agreements on external debt, signed under the guarantee of the Republic of Uzbekistan, amounted to 191.6 million dollars.

Public external debt by sectors of the economy in 2021:

• Budget support - $5.9 billion ($4.7 billion as of January 1, 2021);

• Power industry — $3.1 billion ($3.1 billion);

• Energy (oil and gas) — $2.9 billion ($2.7 billion);

• Transport and transport infrastructure — $2.6 billion ($2.5 billion);

• Agriculture and Water Resources — $2.4 billion ($2.3 billion);

• Housing and communal services — $2.1 billion ($2 billion);

• Commercial banks - $1.2 billion ($1.2 billion);

• Chemical industry — $1.2 billion ($1.2 billion);

• Education and healthcare — $0.7 billion ($0.7 billion);

• Telecommunications — $0.2 billion ($0.2 billion);

• Other industries - $1.3 billion ($1.1 billion).

The volume of newly signed agreements to attract government foreign borrowing is forecast to decrease by $0.4 billion compared to the previous period.

If internal and external debt, without exceeding the established criteria, does not harm the financial stability of the country and is directed to the most relevant and effective projects within the framework of state development programs, then such expenses will not create problems in terms of economic security. For this, the legal framework and mechanisms for effective public debt management should be improved.

In the parameters of the State Budget for 2022, adopted in the form of a law, the maximum amount of funds raised, which will determine the amount of debt, is set at $4.5 billion, and the maximum net amount of government securities is six trillion soums. Thanks to such measures, it is expected that this year borrowings will be attracted, which determines the size of the state's external debt, almost two times less than in 2021. Along with this, the investments now necessary for the country and the people will be attracted from the private sector through public-private partnerships, the development of the domestic financial market, and the acceleration of the privatization process.

In summing up it can be noted that the debt policy should be aimed at developing the investment market as a source of covering the budget deficit, maintaining the public debt at a safe level for the economy, ensuring the ability of Uzbekistan to borrow in the volumes necessary to solve priority economic and political problems and solve them with the greatest efficiency, and also not hinder development, but rather increase the country's ratings.

To do this, it is necessary to maintain the level of public debt and the cost of servicing it, as well as to constantly monitor the country's debt situation.

LIST OF USED LITERATURE:

1. Budget Code of the Republic of Uzbekistan dated December 26, 2013.

2. Law No. ZRU-742 dated December 30, 2021 “On the State Budget of the Republic of Uzbekistan for 2022”

3. Decree of the President of the Republic of Uzbekistan dated January 28, 2022, No. UP-60 “On the development strategy of the new Uzbekistan for 2022-2026”

4. Message from the President of the Republic of Uzbekistan ShavkatMirziyoyev to the OliyMajlis. Tashkent, January 24, 2020 (www.president.uz).

5. Jiyanova N. E. Management of public finances. Tutorial. / - T .: "IҚTISOD-MOLIYA", 2019. p. 384.

6. Jiyanova N. E. Public Finance Management: Textbook. / - T .: "IҚTISOD-MOLIYA", 2019.p. 444.

7. Jiyanova N. E., Tashmatova R. G. Fiscal policy. Textbook./ - T .: "IҚTISOD-MOLIYA", 2019. p. 216.

8. McConnell, K.R. Economics: principles, problems, and politics / K.R. McConnell, S.L. Brew; Per. from English. – 13th ed. - M. : Infra-M, 2001. p. 974.

9. Vorobyov A.E., Balykhin G.A., Nifad'ev V.I., Chekushina T.V. Scientific and methodological substantiation of national security in the field of public debt. - Bishkek: Publishing house of KRSU. - 2005.

10. State and municipal finance: Textbook / Ed. G.B. Pole. - M.: UNITI, 2016. p.391.

11. Solovyov, I.N. Public Finance: Criminal Law Protection: Textbook / I.N. Solovyov. - M.: Prospekt, 2016. p.240.

12. Abysheva A.V. State debt of Russia: assessment of the current state / A.V. Abysheva // Science of Science. - 2016. - No. 5. 1-7.

13. Ulyanetsky M.M. On the need to revise the theoretical approach to state credit and its forms // Finance and credit. 2016. No. 4. 32-41

14. 14/Jiyanova N. E., Tashmatova R. G. Ways to increase the sustainability of budget revenues at all levels in the context of innovative economic development// Thematics Journal of Economics ISSN 2277-3029: 7 pp. 6-14 (1). https://zenodo.org/record/4924185#.YPrtfY17nIU

15. Budget for citizens of the Republic of Uzbekistan for 2022. https://admin.openbudget.uz/media/post_attachments/Budjet_22_ru_11_j5KXzMs.pdf

16. https://xs.uz/ru/post/gosudarstvennyj-dolg

17. www.mf.uz - Official website of the Ministry of Finance of the Republic of Uzbekistan.

18. www.lex.uz - National database of legislation of the Republic of Uzbekistan.

19. www.openinfo.uz - Unified corporate information portal

20. https://www.gazeta.uz/ru/2022/02/28/gov-debt/