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PUBLIC DEBT MANAGEMENT IN UZBEKISTAN: A FRAMEWORK FOR SUSTAINABILITY AND GROWTH

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ABSTRACT

This study analyzes Uzbekistan's public debt management by integrating debt sustainability theory with country-specific economic factors. Given that 87% of public debt is external, primarily sourced from multilateral and bilateral creditors, managing currency risk and debt sustainability is critical. The study identifies key risks, including exchange rate volatility and geopolitical exposure, while highlighting opportunities for developing domestic capital markets and diversifying debt sources.

KEYWORDS: *Public debt management, debt sustainability, external debt, fiscal policy, currency risk, capital markets.*

INTRODUCTION

Public debt management is a cornerstone of macroeconomic stability, particularly for emerging economies like Uzbekistan navigating structural reforms and global uncertainties. Since 2016, Uzbekistan has pursued ambitious economic liberalization, increasing public borrowing to fund infrastructure, healthcare, and education. However, rising debt levels—from 18.5% of GDP in 2016 to 38.2% in 2023—raise questions about sustainability and risk exposure.

In recent years, Uzbekistan has implemented bold reforms, liberalizing its economy and improving prospects for private sector development. Since 2017, with an average GDP growth of 5.3%, the country has become one of the world's top reformers, outperforming many lower-middle-income economies.

The government has also recognized the need to boost the responsiveness of its public services, establishing various communication and feedback channels for citizens, such as complaint mechanisms, online meetings with officials, and platforms for feedback on regulations and budgeting.

Despite these efforts, the rapid increase in public debt necessitates a careful examination of debt sustainability and risk exposure. Implementing fiscal consolidation measures gradually can help mitigate the short-term negative impact on economic growth and stabilize debt more permanently.

This study aims to analyze Uzbekistan's public debt management strategies in the context of its ongoing economic reforms, assessing the balance between necessary public investments and fiscal sustainability.

LITERATURE REVIEW

Existing theories of public debt sustainability emphasize fiscal discipline, growth-friendly borrowing, and effective risk management. The International Monetary Fund's (IMF) Debt Sustainability Analysis (DSA) framework provides a widely used approach, assessing debt sustainability based on key indicators such as debt-to-GDP ratios, interest rate differentials, and primary balance requirements (IMF, 2021). According to this framework, a country's ability to sustain debt depends on maintaining economic growth rates above the cost of borrowing while ensuring a stable fiscal position.

Reinhart and Rogoff (2010) argue that when public debt surpasses 90% of GDP in advanced economies, it significantly dampens economic growth, a threshold that is considerably lower for emerging markets due to institutional and macroeconomic vulnerabilities. In developing economies, including Uzbekistan, debt sustainability is influenced by factors such as limited access to deep capital markets, higher interest rate sensitivity, and greater exposure to external shocks. Empirical studies show that emerging markets must maintain more conservative debt levels, often below 60% of GDP, to avoid unsustainable debt spirals (World Bank, 2022).

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For commodity-dependent economies, research highlights the risks associated with procyclical fiscal policies—where governments increase borrowing and spending during periods of high commodity prices, only to face fiscal distress when prices fall. This phenomenon, common in resource-rich developing nations, leads to revenue volatility, macroeconomic instability, and debt sustainability concerns (OECD, 2022). The experience of Chile provides a useful policy model for Uzbekistan. Chile has successfully mitigated commodity price volatility by implementing a fiscal rule that mandates saving windfall revenues from copper exports in sovereign wealth funds, thus smoothing government expenditures over economic cycles (Frankel, 2019).

Uzbekistan's increasing reliance on external debt, especially foreign currency-denominated loans, poses additional risks. Eichengreen et al. (2005) emphasize that high levels of foreign currency borrowing increase a country's vulnerability to exchange rate fluctuations, making debt servicing more expensive during periods of depreciation. Given Uzbekistan's transition from a closed to a more market-driven economy, careful attention must be paid to the composition of debt, ensuring a balance between concessional and commercial borrowing while strengthening domestic capital markets to reduce dependency on foreign loans.

Analysis of Uzbekistan's Debt Portfolio

Public debt management in Uzbekistan requires balancing external and internal debt sources to ensure fiscal sustainability while minimizing risks. As of 2023, 87% of public debt is external, primarily sourced from multilateral institutions such as the World Bank, ADB, and IMF, as well as bilateral creditors including China and Russia. Meanwhile, internal debt constitutes 13%, mainly in short-term government bonds. To evaluate the sustainability of this debt structure, it is important to apply the debt sustainability theory, which suggests that a country's debt is sustainable if it can meet its current and future debt obligations without resorting to excessive fiscal adjustments that could hinder economic growth or disrupt financial stability. This involves maintaining a balance where the economy's growth rate exceeds the real interest rate on debt, ensuring that borrowing remains productive rather than burdensome.

4.1 External Debt: Risks and Benefits

Uzbekistan's reliance on external debt provides advantages such as lower borrowing costs, with concessional loans averaging 1.5–2% interest rates and repayment periods of 15–25 years, along with access to foreign expertise and technology transfer. However, 85% of external debt is denominated in foreign currencies, creating currency risk, where a 20% som depreciation could add $500 million annually in debt servicing costs (Central Bank of Uzbekistan, 2023). Furthermore, 17% of external debt is owed to China, exposing Uzbekistan to potential geopolitical risks. If economic relations with major creditors shift, it could impact future access to concessional financing. Debt sustainability theory suggests that if external borrowing is used to finance productive investments that generate higher returns than the borrowing cost, it can be sustainable. However, excessive reliance on foreign debt without sufficient revenue generation increases the risk of sovereign debt distress.

4.2 Internal Debt: Opportunities and Challenges

Although domestic borrowing offers exchange rate stability, it remains limited due to high interest rates (12–14%) and a narrow investor base. Expanding domestic capital markets could reduce forex exposure, improve fiscal flexibility, and provide long-term financing alternatives. However, challenges include low financial literacy, limited investor participation, and a short maturity profile (3–5 years). From a debt sustainability perspective, increasing local currency-denominated borrowing would reduce exchange rate risks and improve financial resilience, but only if domestic interest rates decline to manageable levels. Without proper financial market development, an overreliance on expensive internal borrowing may increase fiscal stress rather than reduce external vulnerabilities.

4.3 Uzbekistan's Debt Portfolio Structure in 2023

Category	Share of Total Debt	Avg. Interest Rate	Maturity Profile
External Debt	87%	2.0%	15–25 years
Internal Debt	13%	12.5%	3–5 years

Source: Ministry of Economy and Finance of Uzbekistan (2023)

Given the dominance of external debt, Uzbekistan must focus on improving debt sustainability by strengthening domestic borrowing mechanisms and ensuring external loans are allocated efficiently for productive investments.

4.4 Economy Policy Recommendations for Debt Optimization

To improve debt sustainability, Uzbekistan should diversify external debt sources, reduce dependence on China and Russia, and expand partnerships with the IMF, ADB, and European Investment Bank. Strengthening domestic capital markets by developing long-term local currency bonds (10+ years) can mitigate rollover risks. Additionally, creating a sovereign wealth fund to manage windfall revenues from gold and gas—similar to Chile's

copper stabilization fund—can enhance fiscal resilience. Implementing fiscal rules to cap public debt at 60% of GDP, alongside currency hedging strategies and shifting toward fixed-rate borrowing, would further reduce external risks. The debt sustainability framework also recommends implementing debt transparency policies and risk assessment models to track potential vulnerabilities in borrowing strategies.

CONCLUSION

Uzbekistan's external debt dominance offers low-cost financing but exposes the economy to currency and geopolitical risks. Expanding domestic borrowing options, diversifying funding sources, and implementing prudent fiscal policies are essential to creating a sustainable and resilient debt framework. Applying debt sustainability theory, Uzbekistan should ensure that borrowed funds contribute to economic growth, revenue generation, and long-term fiscal stability, thereby preventing future debt distress while supporting economic development.

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