PUBLIC DEBT AND ITS NEGATIVE CONSEQUENCES

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Annotation: This article examines the nature of public debt, the impact of public debt on the country's financial situation, and the issues of effective use of public debt. Also, the dynamics of the current state of the public debt of the Republic of Uzbekistan and the analysis of debts and expenses, as well as reviews of the compliance of public debt management mechanisms with world standards and ways of developing financial strategies were discussed.

Keywords: government loans, government loans, high taxes, shortening of investments.

ГОСУДАРСТВЕННЫЙ ДОЛГ И ЕГО ОТРИЦАТЕЛЬНЫЕ ПОСЛЕДСТВИЯ

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Аннотация: В данной статье рассматривается природа государственного долга, влияние государственного долга на финансовое положение страны, а также вопросы эффективного использования государственного долга. Также были обсуждены динамика текущего состояния государственного долга Республики Узбекистан и анализ долга и расходов, а также обзоры соответствия механизмов управления государственным долгом мировым стандартам и пути разработки финансовых стратегий.

Ключевые слова: государственный кредит, государственный долг, высокие налоговые ставки, сокращение инвестиций.

INTRODUCTION

As countries prioritize economic growth and social stability, governments worldwide have resorted to borrowing in order to finance large investment projects and address the needs of their citizens. This has contributed to a noticeable increase in public debt levels in both developed and developing nations, which has been one of the primary driving forces behind global economic growth in recent decades. However, the growth of public debt portfolios has led to complex financial structures and significant financial and operational risks, compounded by debt crises in various regions across the globe. Therefore, managing public debt effectively is critical for governments and requires the implementation of proper practices.

Public debt refers to the obligation of a government to pay certain amounts of money to the owners of claims established by law. The debt can be in standard currencies or foreign currency units of the debtor state. In the case of the United States, public debt mainly represents the obligation of the federal government to pay certain amounts of the U.S. dollar to creditors. Public and local debt can consist of repaying the principal debt, paying both the principal and interest, or paying only the interest. Some debts may have clear timelines, while others may not. Debt securities that represent the obligation to pay interest forever do not include the obligation to return the principal. The causes of public debt, whether it increases or decreases, are linked to the economic policy of each country and the scope and dynamics of reforms. The demand for foreign debt in the world has increased over the past decade, and the gap between countries in this regard has widened.

It is common for the government to borrow money in order to fund various projects and initiatives. However, if this borrowing is not managed properly, it can lead to negative consequences. Excessive public debt can have several negative impacts such as:

1. **Interest payments:** A significant portion of the government's budget must be allocated to pay the interest on the debt. This means that less money is available for important public services such as healthcare, education, and infrastructure development.

2. **Decrease in investment:** High levels of public debt can deter private investment because it leads to an increase in interest rates and limits borrowing from the private sector. This can hinder economic growth and job creation.

3. **Financial instability:** When a government accumulates too much public debt, it can cause financial instability. This is because investors may lose confidence in the government's ability to repay the debt. As a result, they may demand higher interest rates or even refuse to lend the government any more money, which can lead to a financial crisis.

4. **High Taxes:** To pay off their debt, governments often resort to tax-raising or austerity measures. However, this can aggravate taxpayers and reduce their voluntary income.

5. **Dependence on lenders:** If a government becomes heavily indebted to foreign creditors, it could compromise its sovereignty and decision-making autonomy. This is because these lenders may impose conditions and influence policy choices, which could be detrimental to the government's interests.

6. **Intergenerational burden:** A high level of public debt can place a payment burden on future generations, limiting their ability to invest in their own priorities and development.

Experience from around the world shows that debt relations have existed in nations since antiquity. When seeds were first purchased, people had to take out loans, which they later paid back once their crops were grown. Lenders and banks continue to offer loans for planting seeds today. Nonetheless, past events have demonstrated that unsecure credit can trigger worldwide financial and economic catastrophes. As such, there is a greater need to focus on smart borrowing, sensible investing, and problem-avoidance.

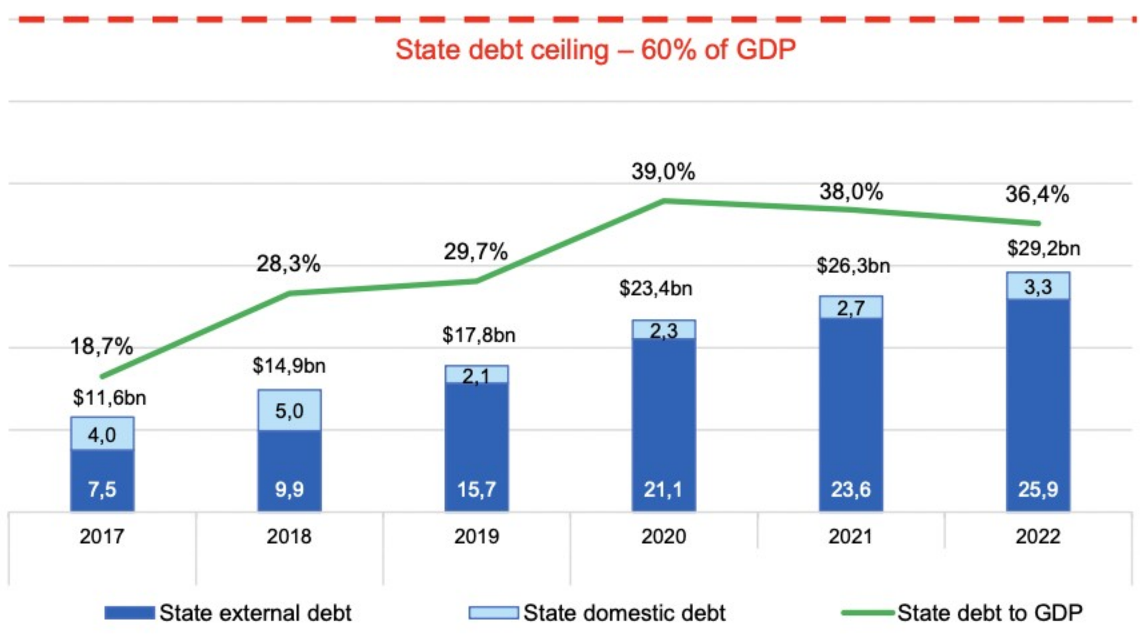
We must objectively assess the dangers associated with using foreign debt to close the state budget deficit, even if it is still a popular financial tool in many nations. Economic and political reliance on international financial institutions can result from a large growth in external debt, particularly for emerging countries. It can also make it more expensive for the state to repay the debt if it keeps growing. Furthermore, the allure of corporate debt from both local and international markets may result in unnecessary expenditure on pointless initiatives or dramatic swings in the economy due to macroeconomic factors including the rate of inflation, rate of economic growth, and national currency rates. Consequently, every nation needs to determine through its national policy the ideal level of public debt.[1]

Fiscal policy and economic growth have a complicated relationship that is vital to policymakers. Both in the short and long terms, fiscal policy has a significant impact on economic growth. According to Kumar and Woo (2010), a persistently high level of public debt in particular may have a negative influence on productivity and capital accumulation, which may then have an adverse effect on economic growth. Cecchetti, Mohanty, and Zampolli (2010) contend that unless fiscal policy is altered, the amount of debt will keep increasing because government spending is growing faster than revenue. They propose that the aging population and greater risk premia for issuing government bonds could result in unstable debt dynamics.

Let's take a look at the amount of debt our state has accumulated in the last two years. In 2022, Uzbekistan's public debt increased by 2.9 billion dollars and reached 29.2 billion dollars, which accounts for 36.4 percent of the country's GDP. More than 90 percent of the state debt is in foreign currency. As of January 1, 2023, the state debt of Uzbekistan amounted to 31.5 billion dollars. This is the highest amount of debt the country has ever had.[2]

[1] https://www.imf.org/en/News/Articles/2019/11/07/sp110719-how-to-use

[2] http://tashkenttimes.uz/finances/12003-uzbekistan-s-public-debt-tops-31-5-billion-as-of-july-1-2023



Data chart for January 2023

Infrastructure projects in developing countries like Uzbekistan are expanding rapidly. Governments have two options to fund these projects: either raise taxes or attract foreign debt and investment funds. Since increasing taxes can discourage economic growth in the long run, many developed countries tend to opt for the latter.

The paper is structured as follows: Firstly, we provide a literature review on the relationship between public debt and economic growth, focusing solely on empirical studies. Next, we describe the applied methodology and the data used in the estimation models for evaluating the direct impact of public debt on growth. In the fourth section of the paper, we present the results and determine the debt turning point for a particular group of countries. Lastly, we conclude with the main findings and limitations in the last section.

LITERATURE REVIEW

According to A. Pienkowski's research on public debt and the structural composition of debt, there is no universally accepted maximum limit for all public debt. However, these indicators vary significantly for developing and least developed countries. One of the key recommendations is to issue public securities linked to GDP in order to increase the maximum level of debt for developed countries. Additionally, it is advisable to denominate the debts of relatively low-income countries in their national currency.[3] In his article, P. Leao analyzes whether high debt levels are a real problem. He argues that high levels of public debt can lead to an increase in the tax burden. He also proposes the development of state fiscal policy mechanisms to reduce the state's default and its impact on inflation.[4] E. Beqiraj and S. Fedeli conducted a study on the attitude of governments towards an increase in the debt-to-GDP ratio. The study covered 21 member countries of the Organization for Economic Co-operation and Development. The aim was to identify corrective measures that can be taken by governments in response to the correlation between debt and deficit, in case the debt burden increases.[5] The literature on the relationship between public debt and economic growth suggests that it is nonlinear and concave in shape, forming an inverted U-shape. This means that public debt can have either a positive or negative effect on economic growth. However, there is a lack of consensus on the effect of public debt on economic activity in developing countries as the academic literature on this topic is scarce. Our research focuses on examining the critical threshold for public debt and its impact on economic growth in EU countries, distinguishing between the ‘old’ and ‘new’ member states. It is important for countries with increasing debt burden to develop models that predict both positive and negative effects of debt on financial and economic stability. These models should be accompanied by a faster political will to implement them.

RESULT AND DISCUSSION

Management of public debt and prevention of associated risks are carried out through a comprehensive legal, economic, and technological framework. The main purpose of public debt management is to cover the state budget deficit of the Republic of Uzbekistan at the expense of state funding, as well as ensure the need to finance social

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[3] Pienkowski A. Debt Limits and the Structure of Public Debt // Journal of Globalization and Development, vol. 8, no. 2, 2018, pp. 20170018. https://doi.org/10.1515/jgd-2017-0018.

[4] Pedro L. Is a very high public debt a problem? // Levy Economics Institute of Bard College, Annandale-on-Hudson, NY. No. 843, 2015

[5] Elton B., Silvia F. Public debt sustainability: An empirical study on OECD countries // Journal of Macroeconomics, vol. 58 (2018) 238-248.

and infrastructure projects and the development of public programs, as well as public debt services at the most optimal level of cost and risk promptly, extension of the average term of public debt and diversification by currencies and sources, expansion of the practice of attracting funds by the state in the currency of the Republic of Uzbekistan, and prevention of risks associated with public debt services, which consists of elimination or reduction. Public debt management consists of the following operations:

✓ development of public debt management strategy;

✓ government funding;

✓ management of funds raised by the state;

✓ public debt risk management;

✓ public debt restructuring;

✓ refinancing of funds raised by the state;

✓ formalization and provision of state guarantees;

✓ maintaining a list of public debt agreements and government guarantees, including revoked state guarantees;

✓ maintaining public debt accounting and reporting;

✓ Ensuring public debt service and fulfilling state guarantee obligations.

Public debt is a type of debt that is unique to countries that have adopted a market economy and an open market policy. If there is full effective control over the use of this debt, it can be used to serve the needs of the population while promoting economic growth. A good example of this is Japan's economic success story, where the Japanese people trusted their government and lent enough to fuel their country's growth. It is important to note that the estimated values do not provide a specific target to support the growth projections. Instead, these results are an additional argument for implementing fiscal consolidation strategies to reduce public debt. Our research provides direct evidence of the nonlinearity between public debt and economic growth. The results indicate that unstable debt dynamics may increase the risk of a detrimental effect on capital accumulation and productivity growth, potentially leading to adverse effects on economic growth. Therefore, this research can help us better understand the issue of high public debt and its impact on economic activity in Uzbekistan. The knowledge gained from our research can be used to address the problem in a timely manner and maintain a stable macroeconomic environment in the future.

CONCLUSION

Today, as the world's economies become increasingly interdependent, managing public debt is an important consideration in ensuring the openness of Uzbekistan's economy. This is because the development of economic and social infrastructure, modern projects, and new technologies require additional investments. Therefore, it is essential to develop the domestic debt market to provide modern mechanisms for increasing domestic resources, alongside external debt sources. Managing public debt, especially external debt, involves risks that need to be carefully considered. Therefore, it is a key issue in the strategy for public debt management.

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