



FINANCIAL SECURITY AND PUBLIC DEBT

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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, including the relationship between the budget deficit and the volume of imports with the country's gold and foreign exchange reserves, 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.

Introduction

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.

The importance of financial security is determined by the role of finance and the state's financial system, as well as their impact on the country's economic development. Problems related to eliminating and preventing threats to financial



security can only be solved through the collaborative efforts of all state control bodies. One of the key financial security indicators is maintaining public debt within prescribed limits.

Public debt and financial security are closely interconnected because public debt can negatively affect financial stability. Financial security encompasses a set of measures aimed at protecting the economic interests of the state and its citizens.

Excessive growth of public debt can lead to the following negative consequences:

- increase in budget deficit;
- heightened dependence on foreign creditors;
- decline in investment attractiveness;
- instability of the national currency and risk of inflation;
- reduced ability of the state to fulfill its social and economic obligations.

Therefore, effective management of public debt, maintaining an optimal level of debt burden, and ensuring budgetary stability are of critical importance for maintaining financial security.

Literature Review

The concept of financial security as a distinct category has been more comprehensively covered by Russian scholars. For instance, V.P. Okhapkin defines financial and monetary security as affecting all sectors of the state economy. He states: “Money is the equivalent of the value of any goods and is a factor capable of destabilizing the economic situation in a country. Money exists not only in the form of paper or coins but also as cashless transfers and securities (stocks, bills, certificates, bonds), which determine the financial condition of the country. The country’s banking system plays a crucial role as it carries out all operations related to money and securities. Banks specifically have the ability to stabilize or destabilize the country’s financial condition.”

The renowned French economist and 2014 Nobel Laureate in Economics, Jean Tirole, emphasizes that ensuring a country’s financial security requires attention to the issue of financial institutions’ liquidity and the state support of deposit insurance within the current national and global financial architecture.

English professor Gary M. Schiffman associates financial security with the rapidly evolving financial technology sector, highlighting that it poses both threats and new opportunities to the national security system of the US economy.



G.S. Vechkanov, reflecting on ensuring financial security, identifies taxes as a fundamental element. He states: “Taxes are the financial resources that ensure the economic and financial security of all sectors of the economy.” Taxes act as a protective layer of society’s security, encompassing the state, regions, enterprises, families, and individuals.

E.V. Karanina defines state financial security as “the ability to carry out independent financial and economic activities while considering national interests.”

Russian scholar S.V. Zenchenko argues that financial security issues in any country are related to economic globalization. He notes that uneven distribution of resources in various regions has caused several problems, and the movement of international financial flows has created threats to the national economy’s financial security system. He links threats to financial security with the processes of economic globalization.

E.N. Kush asserts that threats to economic security are identified through evaluation based on various criteria, studying economic security systems by analyzing enterprise activities within the economy.

Based on these views, we suggest defining state financial security as follows: Financial security is a certain degree of national independence that ensures the effective functioning of the state financial system, taking into account the interests of financial relations at all levels.

Research Methodology

The article effectively utilizes scientific reasoning, analysis, and synthesis methods. Additionally, the scientific-theoretical views of economists on ensuring the country’s financial security were studied and analyzed using the scientific abstraction method. The study employed financial security assessment indicators recommended in the normative-legal documents of the International Monetary Fund (IMF) and the World Bank.

Analysis and Results

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.

Public debt refers to the obligations of the Republic of Uzbekistan to individuals and legal entities, foreign states, international organizations, and other subjects of international law, including obligations under state guarantees provided by the Russian Federation. From this perspective, it can be stated that the level of public debt directly impacts the country's economic security. A high debt level leads to increased servicing costs, which in turn may cause a decline in investment potential, inflation, and deterioration of the country's credit rating.

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.

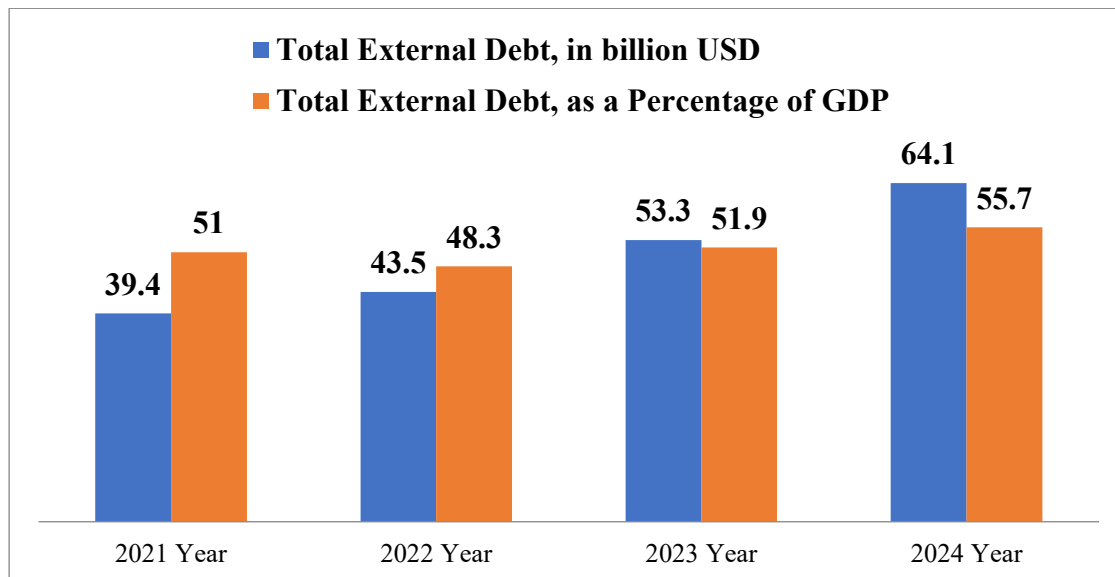


Figure 1. Total External Debt of the Republic of Uzbekistan from 2021 to 2024¹

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.

¹ Balance of Payments, International Investment Position, and External Debt of the Republic of Uzbekistan. Prepared by the author based on the data from <https://cbu.uz/upload/medialibrary/fee/24Q4.pdf>.

According to foreign experts, this indicator determines the level of a country's investment attractiveness. When this indicator approaches a crisis level (approaching 11), 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.

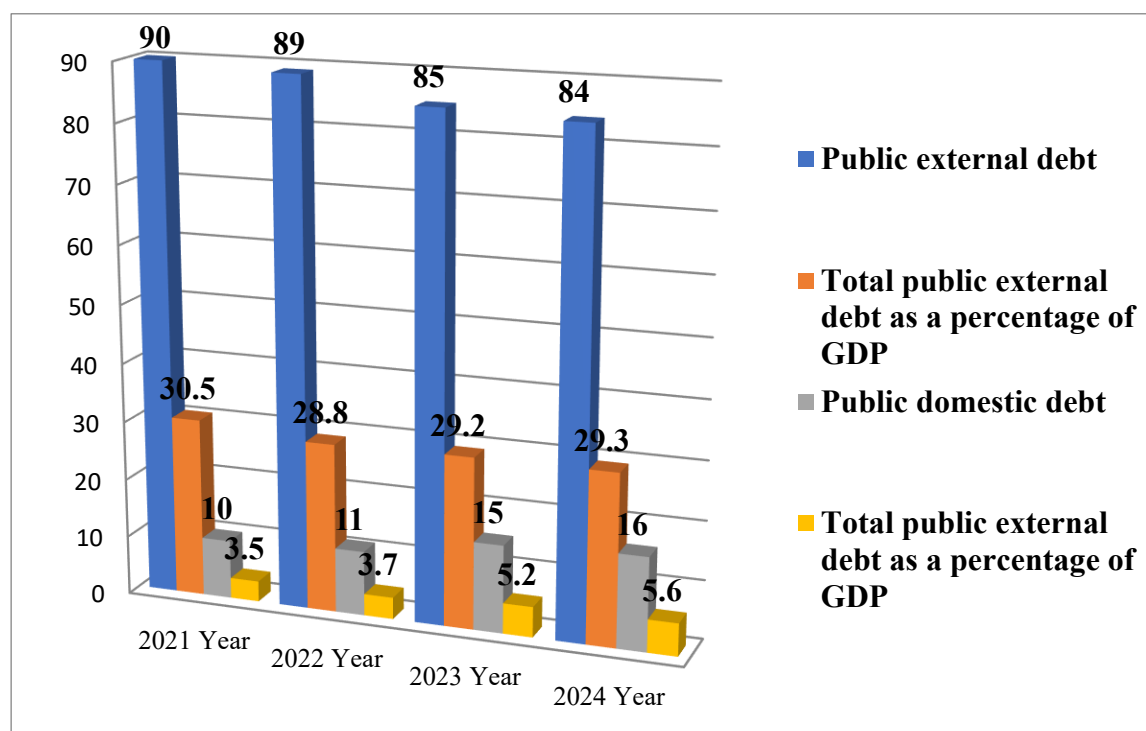


Figure 2. Sources of the Republic of Uzbekistan's Total Public Debt from 2021 to 2024²

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.

² <https://www.imv.uz> – Data from the Ministry of Economy and Finance of the Republic of Uzbekistan.

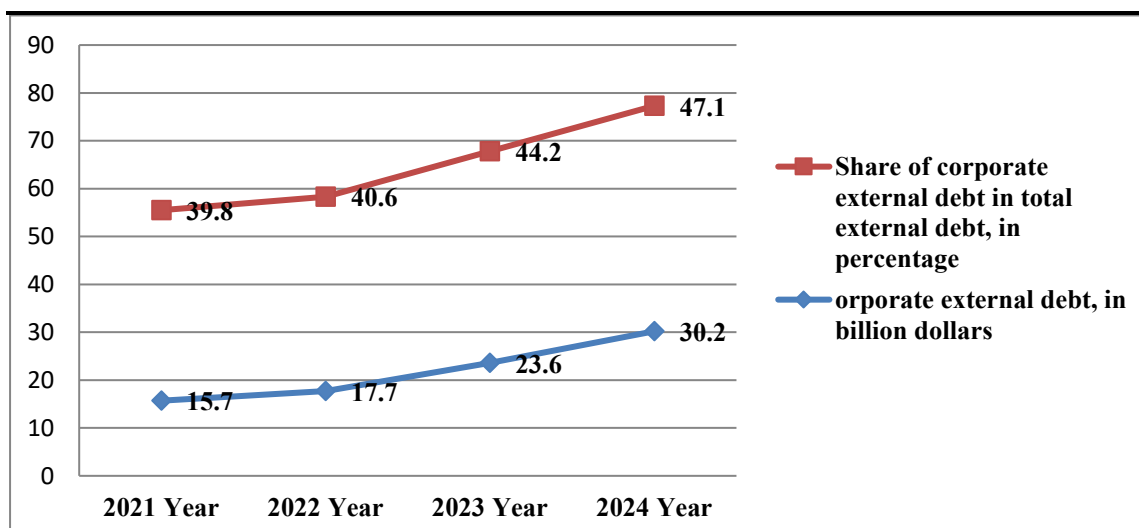


Figure 3. Share of corporate external debt in the total external debt of the Republic of Uzbekistan in 2021-2024³

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%

³Balance of Payments, International Investment Position, and External Debt of the Republic of Uzbekistan. Prepared by the author based on the data from <https://cbu.uz/upload/medialibrary/fce/24Q4.pdf>.



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.

It is worth noting that in 2018 Uzbekistan obtained a sovereign credit rating, which enabled the issuance of sovereign international bonds in global financial markets. In February 2019, for the first time in its history, Uzbekistan placed Eurobonds on the London Stock Exchange, one of the world's most reputable exchanges. The placement included \$500 million in 5-year Eurobonds at a 4.75% coupon and \$500 million in 10-year Eurobonds at a 5.375% coupon. The repayment dates for these bonds are set for 2024 and 2029, respectively.

Between 2018 and 2020, the Ministry of Finance, "O'zsanoatqurilishbank" JSCB, "O'zmilliybank" JSC, and "Ipoteka Bank" JSC issued international bonds, attracting \$2.65 billion from foreign investors. This transaction marked the first international bond issuance among corporate issuers in Uzbekistan.

The \$500 million bonds issued on February 14, 2019, with a maturity of 5 years, are considered the first Eurobonds. A detailed study is needed on how these \$500 million were utilized and what impact they had; if necessary, the government should provide a public report. Of the tranche, \$459.6 million was placed as a 5-year deposit in state banks, and another \$39.95 million was allocated as a budget loan to the Navoi Mining & Metallurgy Combinat.

Table 1 Conditions for Placing Funds Raised from the Issuance of International Bonds of the Republic of Uzbekistan into Deposits of Commercial Banks through Auction Sales⁴

In million USD

Deposit Term	Maximum Amount to be Deposited (million USD)	Minimum Annual Interest Rate	Interest Payment Period	Deposit Maturity Date
5-year deposit	459.6	5.25%	Every 6 months (Feb 10 / Aug 10)	February 10, 2024
10-year deposit	429.6	5.875%	Every 6 months (Feb 10 / Aug 10)	February 10, 2029
Total	889.2	—	—	—

⁴ Decree of the President of the Republic of Uzbekistan No. PF-5877 dated November 18, 2019, "On phased transition to inflation targeting regime and improvement of monetary-credit policy". <http://www.lex.uz>



Since the beginning of 2024, the value of Uzbekistan's reserve assets has decreased from 34.564 billion USD to 32.195 billion USD, a decline of 6.85%. A portion of these funds was directed towards redeeming part of the sovereign eurobonds issued in 2019. Now, let us examine statistical data on the sectoral allocation of the country's external debt. It can be observed that 40-45% of the state's external debt has been spent on supporting the budget. In 2022, these expenditures accounted for 33% of the total external debt, while by 2024, this share increased to 45%, indicating a growing trend in these expenses.

According to the "Law on the State Budget of the Republic of Uzbekistan for 2025," it is planned to allocate 3.0 billion USD this year to financially support the state budget.

Table 2 Analysis of the Sectoral Allocation of the Republic of Uzbekistan's External Public Debt for 2022-2024⁵

Sector Name	2022 (mln USD)	% of Total 2022	2023 (mln USD)	% of Total 2023	2024 (mln USD)	% of Total 2024
Total External State Debt, including:	25,914	100%	29,639	100%	33,726	100%
For Budget Support	8,647	33%	11,738	40%	15,291	45%
Fuel and Energy Industry	5,822	22%	5,791	20%	5,748	17%
Oil and Gas	2,754	11%	2,060	7%	1,746	5%
Electric Power Industry	2,987	12%	3,427	12%	3,783	11%
Coal Industry	81	0%	304	1%	219	1%
Transport and Transport Infrastructure	2,509	10%	2,771	9%	2,852	8%
Railways	1,142	4%	1,196	4%	1,275	4%
Highways	812	3%	1,114	4%	1,208	4%
Air Transport	555	2%	461	2%	369	1%
Agriculture and Water Management	2,537	10%	2,657	9%	2,918	9%
Agriculture	1,808	7%	1,870	6%	2,069	6%
Water Management	730	3%	787	3%	849	3%
Housing and Communal Services	2,299	9%	2,610	9%	2,856	8%
Housing Construction	1,353	5%	1,364	5%	1,318	4%
Drinking Water Supply and Sewerage	763	3%	847	3%	938	3%
Improvement of Urban and Rural Infrastructure	81	0%	264	1%	440	1%
Waste Recycling	75	0%	85	0%	86	0%
Heat Supply	27	0%	50	0%	74	0%
Support for Entrepreneurship and Industrial Production	1,066	4%	1,078	4%	841	2%
Chemical Industry	1,026	4%	896	3%	764	2%
Healthcare, Education, ICT, and Other Sectors	2,008	8%	2,098	7%	2,456	7%

⁵ <https://www.imv.uz> – Data from the Ministry of Economy and Finance of the Republic of Uzbekistan.



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.

Conclusion and Recommendations

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.
- Frequent fluctuations in inflation can create a kind of "uncertainty" among economic agents. This complicates economic planning and may create a speculative environment in the future. Such irregular economic behavior harms all parties involved. According to CERR calculations, a 1% increase in government spending relative to GDP could raise inflation by 0.6%.

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.
- During economic reforms, external debt growth rates should not significantly exceed GDP growth rates.
- 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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