



ACTIVITY DIRECTIONS OF THE STATE DEBT SERVICE GUARANTEE FUND IN PUBLIC DEBT MANAGEMENT

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ABSTRACT	KEYWORDS
The article highlights the purpose, tasks, and activity directions of the State Debt Service Guarantee Fund, which plays an important role in the public debt management system of the Republic of Uzbekistan. In addition, the study analyzes the growth trends of public debt in Uzbekistan and examines the revenues and expenditures of the State Debt Service Guarantee Fund.	Public debt, Guarantee Fund, financial stability, debt policy, external debt, budget deficit, debt management.

Introduction

Public debt plays an important role in a country's macroeconomic system. This is because the formation of public debt, as well as the processes of servicing and repayment, have a significant impact on public finance, monetary circulation, the investment climate, the structure of consumption, and the development of international cooperation. The main reason for the emergence of public debt is the government's inability to ensure a balance between revenues and expenditures. Historical and modern economic practice shows that almost all countries have faced problems related to public debt in their development process, meaning that the existence of public debt is an integral part of the economic system. Global experience demonstrates that countries widely use debt policy to finance budget expenditures. Therefore, public debt is regarded as a normal economic phenomenon within the financial management of any developed nation. In particular, in many countries, problems associated with public debt intensified due to the COVID-19 pandemic that began in 2019, negatively affecting budget deficits, fiscal stability, and economic growth rates. In Uzbekistan's case, by the end of 2024, the volume of public debt reached USD 40.2 billion, or 35 percent of GDP, showing a steady growth trend of 172.1 percent compared to 2020, which underscores the growing need for effective debt management [10].

It should be noted that effective public debt management is an integral part of macroeconomic and fiscal policy. Article 35 of the Law of the Republic of Uzbekistan "On Public Debt" (No. LRU-836) states that "the amount of public debt shall not exceed sixty percent of the annual forecast indicator of

gross domestic product” [1]. Therefore, creating strong institutional foundations for sustainable macroeconomic policy is of great importance. Among such institutional mechanisms is the establishment and effective management of the State Debt Service Guarantee Fund as a key instrument to ensure public debt sustainability. This fund not only strengthens investors’ confidence in government securities and minimizes uncertainty in financial markets but also serves as an essential financial tool to systematically finance debt servicing, ensure continuity of payments, and guarantee the timely fulfillment of debt obligations.

Literature Review

In J. Buchanan’s research, the economic essence of public debt and its diverse interpretations are critically analyzed. According to the scholar, public debt is often misinterpreted as a purely negative phenomenon that harms a country’s economic development, whereas, in reality, it can serve as an important financial instrument in the process of economic growth. Buchanan emphasizes that proper debt management and its alignment with effective fiscal policy are essential prerequisites for the stability of public finance [3].

In the study by Ghosh, Kim, Mendoza, Ostry, and Qureshi, the concepts of fiscal fatigue, fiscal space, and debt sustainability in developed countries are examined. The authors argue that at high levels of public debt, governments’ ability to implement additional fiscal measures weakens, thereby threatening long-term fiscal sustainability [4].

A. Pienkowski, in his research on the structure and composition of public debt, demonstrates that there is no universal threshold for acceptable debt levels applicable to all countries. Instead, the limits differ significantly among developed, developing, and low-income nations. One of his key recommendations is that low-income countries should prioritize borrowing in national currency, whereas developed countries can issue GDP-linked government securities as an effective strategy to increase their debt capacity [5].

In P. Leão’s article, it is argued that an increase in the volume of public debt leads to higher tax burdens, a greater risk of sovereign default, and intensification of inflationary pressures. However, the author also stresses the necessity of designing effective fiscal policy mechanisms to mitigate these adverse effects [6].

E. Beqiraj and S. Fedeli’s study analyzes the attitudes of governments in 21 OECD member countries toward the rising debt-to-GDP ratio. The research systematically examines, on a scientific basis, the set of fiscal and institutional measures required under growing debt burdens, as well as the correlation between public debt and budget deficits [7].

Ahmed and Rogers argue that when analyzing the relationship between public debt and budget deficits, it is crucial to consider long-term fiscal sustainability. Their article explains the interconnection between budget and trade deficits through the present value constraints approach [8].

Baldi and Staehr, in their research on the European debt crisis, analyze the fiscal policies of European countries during 2000–2014. According to their findings, the rise in public debt and budget deficits prompted governments to strengthen their fiscal frameworks. Their study shows that while increasing debt burdens enhanced fiscal policy flexibility in some European nations, it also led to a slowdown in economic growth in others. Therefore, the authors conclude that improving fiscal policy mechanisms under high debt-to-GDP ratios plays a vital role in ensuring macroeconomic stability [9].

Research Methodology

The article analyzes the public debt management system of the Republic of Uzbekistan and the activities of the State Debt Service Guarantee Fund. During the research process, induction, deduction, and comparative analysis methods were applied. The study examined data on the volume and structure of public debt, the dynamics of external and internal debt, as well as the revenues and expenditures of the State Debt Service Guarantee Fund, based on official information obtained from the official website of the Ministry of Economy and Finance of the Republic of Uzbekistan.

Analysis and Results

Public debt represents the total amount of a country's financial obligations to individuals, legal entities, foreign states, international organizations, and other subjects of international law, which may also be formed on the basis of state guarantees. Public debt is fully secured by state property, and the relevant government bodies are responsible for taking the necessary measures to service and repay it.

In a broad sense, public debt management is an integral component of a country's economic policy, representing a systematic organization of the state's borrowing activities. This process encompasses the following key directions:

formulating public debt policy and aligning it with macroeconomic stability strategies;

determining debt limits and coordinating them with indicators of budget deficit and fiscal sustainability;

assessing the impact of public debt on economic growth, inflation, investment activity, and other macroeconomic indicators;

evaluating opportunities for financing nationwide socio-economic programs and developing mechanisms for the efficient use of borrowed resources.

In the Republic of Uzbekistan, systematic efforts are being made to ensure effective management and control of public debt. In particular, on September 11, 2023, the President adopted Decree No. 158 "On the Uzbekistan – 2030 Strategy." This strategy pays special attention to public debt management and fiscal stability. It aims to increase GDP volume, raise per capita income, reduce inflation, and coordinate monetary, fiscal, and foreign trade policies to maintain annual inflation at the level of 5–6 percent by 2030. These measures are intended to ensure effective debt management and strengthen fiscal sustainability.

The relationship between the level of public debt and the economic situation is not always direct. A high level of debt does not automatically lead to a decline in economic stability; what matters most is the effective management of borrowed funds and their targeted use for economic growth. From this perspective, public debt should be regarded as an instrument of economic development strategy. The following Table 1 presents indicators of public debt development in Uzbekistan.

Table 1 Information on Uzbekistan's External Debt [10]

№	Indicators	2021		2022		2023		2024	
		Million USD	Share (%)	Million USD	Share (%)	Million USD	Share (%)	Million USD	Share (%)
	PUBLIC DEBT	26 323	100%	29 231	100%	34 927	100%	40 215	100%
	As % of GDP	34,0%		32,4%		34,4%		35,0%	
I	EXTERNAL DEBT	23 582	90%	25 914	89%	29 639	85%	33 726	84%
	As % of GDP	30,5%		28,8%		29,2		29,3%	
1.1.	Fixed interest rate	13 306	51%	13 815	47%	15 801	45%	17 943	45%

	Floating interest rate	10 124	38%	11 955	41%	13 636	39%	15 645	39%
	Interest-free	153	1%	144	0%	201	1%	138	0%
1.2.	Denominated in national currency	415	2%	401	1%	547	2%	561	1%
	Denominated in foreign currency	23 167	88%	25 513	87%	29 092	83%	33 165	82%
1.3.	Short-term	0	0%	0	0%	100	0%	0	0%
	Long-term, repayable within one year	17	0%	230	1%	786	2%	125	0%
	Long-term, repayable in more than one year	23 565	90%	25 684	88%	28 752	82%	33 601	84%
II	DOMESTIC DEBT	2 741	10%	3 317	11%	5 288	15%	6 489	16%
	As % of GDP	3,5%		3,7%		5,2%		5,6%	
2.1.	Fixed interest rate	1 469	6%	1 703	6%	3 674	11%	5 122	13%
	Floating interest rate	295	1%	224	1%	259	1%	122	0%
	Interest-free	976	4%	1 390	5%	1 355	4%	1 245	3%
2.2.	Denominated in national currency	1 158	4%	1 831	6%	1 860	5%	3 072	8%
	Denominated in foreign currency	1 583	6%	1 487	5%	3 428	10%	3 417	8%
2.3.	Short-term	286	1%	703	2%	170	0%	1 164	3%
	Long-term, repayable within one year	106	0%	188	1%	1 351	4%	1 481	3%
	Long-term, repayable in more than one year	2 349	9%	2 426	8%	3 767	11%	3 844	10%

Uzbekistan's total public debt increased from USD 26.3 billion in 2021 to USD 40.2 billion in 2024, reflecting a 53% growth over four years, which indicates a rapid rise in debt levels. However, the debt-to-GDP ratio remained relatively stable, increasing only slightly from 34% in 2021 to 35% in 2024, suggesting that the debt growth has not posed a significant threat to economic stability.

External debt accounts for the major portion of total public debt. In 2021, it stood at USD 23.6 billion (90%), and by 2024 it reached USD 33.7 billion (84%), showing that most borrowing comes from international financial markets. The external debt-to-GDP ratio decreased from 30.5% to 29.3%, which reflects the sustainability of external borrowing in relation to the economy.

Debt with fixed interest rates declined from 51% in 2021 to 45% in 2024, contributing to improved financial stability. Conversely, floating-rate debt increased slightly from 38% to 39%, indicating higher sensitivity to global financial market fluctuations. Interest-free loans made up a minimal portion (0–1%).

The share of external debt denominated in national currency remained low (1–2%), while foreign currency-denominated debt accounted for 82–88%. This demonstrates the debt's vulnerability to exchange rate fluctuations—meaning depreciation of the national currency could increase the debt burden and financial risks.

Short-term external debt was almost nonexistent, with the majority being long-term debt (82–90%) repayable in more than one year. This long-term structure supports debt stability and enables better financial planning.

Domestic debt rose from USD 2.74 billion in 2021 to USD 6.49 billion in 2024. Its ratio to GDP increased from 3.5% to 5.6%, indicating a growing domestic financial market and an improvement in the government's ability to attract internal resources.

Domestic debt with fixed interest rates increased significantly from USD 1.5 billion to USD 5.1 billion, while debt with floating rates decreased, showing a preference for more stable borrowing terms and reduced interest rate risk. Interest-free domestic debt accounted for 3–5% of the total.

Debt denominated in national currency grew from 4% to 8%, while debt in foreign currency increased from 6% to 8%, indicating that domestic borrowing also carries some currency-related risks.

Short-term domestic debt accounted for 1–3%, with the majority being long-term obligations (10–11%), facilitating more manageable debt servicing and enhancing financial stability.

Overall, Uzbekistan's debt structure is characterized by a predominance of long-term and fixed-rate debt, which contributes to financial sustainability. While the high share of external debt exposes the country to exchange rate risks, the growth of domestic debt reflects expanding internal financial capacity. With effective management, public debt can serve as a tool for economic development and financing of investment projects.

Alongside the growth of public debt, timely repayment, interest servicing, and fulfillment of obligations remain critical issues. In this context, the State Debt Service Guarantee Fund plays an important role in strengthening the country's financial stability and economic security. The existence of a guaranteed source for debt servicing increases the confidence of investors, creditors, and international financial institutions. Consequently, this promotes greater inflows of foreign investment, access to international financial resources under more favorable terms, and the enhancement of Uzbekistan's position in global financial markets.

The State Debt Service Guarantee Fund is a key financial mechanism in managing Uzbekistan's internal and external debt. It ensures the stable execution of debt obligations, strengthens the country's reputation in international markets, and significantly reduces financial risks.

In Uzbekistan, the Cabinet of Ministers Resolution "On the Organization of Activities of the State Debt Service Guarantee Fund under the Treasury Committee of the Ministry of Economy and Finance of the Republic of Uzbekistan" was adopted on September 21, 2020. The Fund is not a separate legal entity, but operates within the structure of the Ministry of Economy and Finance.

The main functions of the Fund include:

Debt servicing support – if the borrower organization or refinancing bank fails to make payments (principal, interest, penalties) on time and in full under projects financed through public debt, the Fund's resources are used to cover these payments;

Budget protection – if the Fund's resources are insufficient, the deficit is covered by the state budget;

Debt recovery – payments made from the Fund's resources are subsequently recovered from the debtor organization or bank;

Fund management and investment – the Fund's resources may be managed through investments, deposits, or the purchase of liquid securities;

Accounting and reporting – regular reporting is maintained on the Fund's activities, income and expenses, debt payments made, and recovered funds.

The Fund becomes active in the following cases:

When a project or program is financed through public debt;

When the debtor organization or bank fails to make timely payments;

If the Fund has sufficient resources, they are used first; if not, additional financing may be provided from the state budget as a subsidy.

Table 2 Dynamics of income, transfers and expenses of the Guarantee Fund for servicing public debt (2020-2024, billion soums) [10]

Period	Indicators		
	Revenues	Transfers	Expenses
2020	59 444,6	-	-
2021	495 565,6	227 855,7	40 549,4
2022	368 408,5	-	-
2023	369 015,0	-	138 253,1
2024	974 143,0	-	116 558,5

According to the data, in 2020, the revenues of the State Debt Service Guarantee Fund covered only about one-fourth of the total debt (0.25), indicating a high level of debt pressure on public finances. In 2021, however, the Fund's revenues increased sharply, providing the capacity to cover the debt by 1.8 times.

In the following years (2022–2023), revenues slightly declined, and as total debt continued to grow, the ratio worsened — in fact, in 2023, the Fund's revenues were insufficient to cover the debt (0.88). Nevertheless, due to a significant increase in revenues in 2024, debt pressure decreased substantially, and the Fund's revenues were almost twice the total debt.

Thus, although there were notable fluctuations in public finances during 2020–2024, fiscal stability improved considerably in the final year. Overall, despite short-term volatility, by 2024, Uzbekistan's public finances had become relatively stable; however, the continuous upward trend in public debt suggests that the issue of debt management has not yet been fully resolved.

Conclusion and Suggestions

As the volume of public debt continues to increase, the issue of timely repayment, interest payments, and fulfillment of all financial obligations becomes increasingly critical. The uninterrupted and punctual servicing of debt obligations is one of the key indicators determining a country's credibility in international financial markets. Any delay or failure to meet these obligations negatively affects the country's credit rating and significantly limits its ability to attract funds from international capital markets in the future.

Therefore, the establishment of a special guarantee fund for debt servicing within the public debt management system is of great importance. Such a fund allows for the accumulation and reservation of resources in advance to meet upcoming debt payments. This mechanism helps prevent interruptions in debt servicing that may arise due to fluctuations in annual budget revenues or unexpected economic shocks.

During the 2020–2024 period, the dynamics of the Fund's revenues and debt obligations were volatile. While in 2020, the revenues were insufficient to cover the debt, in 2021, the situation improved significantly due to a sharp increase in revenues. However, in 2022–2023, the relative position weakened again as a result of higher debt and lower revenues, and in 2023, the revenues even fell short of the debt level. By 2024, owing to a substantial increase in revenues, the Fund's capacity to cover debt obligations strengthened considerably.

The State Debt Service Guarantee Fund serves as an essential financial mechanism for managing both external and domestic public debt. Through this fund, the stable fulfillment of debt obligations is ensured, the country's reputation in international financial markets is reinforced, and economic risks are significantly reduced.

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