



## **ECONOMIC MECHANISMS FOR IMPROVING THE EFFICIENCY OF FOREIGN CREDIT LINES**

Ayitbayev Nodirbek Rashid ugli  
Independent Researcher, PhD,  
Tashkent State University of Economics

<b>ABSTRACT</b>	<b>KEY WORDS</b>
<p>This article analyzes the economic mechanisms for improving the efficiency of foreign credit line utilization. It examines key factors such as resource allocation, institutional quality, financial intermediation, and monitoring systems. The study also reviews international experience and evaluates recent reforms in Uzbekistan related to the use of foreign financial resources. The findings indicate that efficiency depends on strategic allocation and effective management of credit resources.</p>	<p>Foreign credit lines, economic efficiency, investment policy, external debt, financial resources, infrastructure development, institutional mechanisms, risk management, Uzbekistan economy, international experience.</p>

### **Introduction**

In the conditions of the modern global economy, the need for investment resources is growing. In particular, in the economies of developing countries, the lack of financial resources remains one of the main obstacles to expanding production, developing infrastructure, and implementing innovative projects. In this regard, foreign credit lines are of particular importance as an important financial source that stimulates economic growth.

Funds attracted through foreign credit lines play an important role in the modernization of industrial sectors, supporting small businesses and private entrepreneurship, as well as increasing export potential. However, the efficiency of using these financial resources is not always high. Misdirected allocation of credit funds, shortcomings in project selection, imperfections in the management system, and institutional problems lead to a decrease in efficiency.

Therefore, increasing the efficiency of using foreign credit lines, directing them to priority areas of the economy, and developing mechanisms that ensure effectiveness are one of the urgent scientific and practical issues. The main goal of this article is to study the economic mechanisms for increasing the efficiency of foreign credit lines, analyze existing problems, and develop scientifically based proposals and recommendations for their elimination. To achieve this goal, the article provides a detailed analysis of the economic essence of foreign credit lines, their role in the national economy, criteria for assessing efficiency, and economic mechanisms that serve to increase it.

## **Literature review on the topic**

The issue of increasing the efficiency of using foreign credit lines has been widely studied by foreign and domestic economists.

According to foreign scholars Joseph E. Stiglitz, external financial resources play an important role in ensuring economic growth in developing countries, but their effectiveness directly depends on the institutional environment and the quality of governance [1]. In our opinion, this approach shows the importance of not only attracting financial resources when using foreign credit lines, but also forming a system for their effective management.

Jeffrey D. Sachs noted that in order for foreign loans to have a positive impact on economic development, they must be directed to specific target projects [2]. In our opinion, the main attention here should be paid to the correct distribution of loan funds across sectors, and it is especially important to choose the real sector as a priority.

Paul Krugman notes that macroeconomic stability is a decisive factor in assessing the effectiveness of external loans [3]. In our opinion, even effective projects may not yield the expected results in conditions where inflation, exchange rate stability, and fiscal balance are not ensured.

Carmen Reinhart and Kenneth Rogoff's research is based on the fact that an increase in external debt can lead to financial crises [4]. In our opinion, this approach implies the need to maintain the debt burden at an acceptable level and introduce a risk management system when using foreign credit lines. World Bank experts note that the effectiveness of foreign credit lines depends on the transparency of their attraction and distribution mechanisms and the development of a monitoring system [5]. In our opinion, these factors serve as an important institutional basis for preventing corruption and increasing efficiency in the use of credit funds.

According to local scholars Said Ganiyev, in order to effectively use foreign credit lines in Uzbekistan, it is necessary to align them with the needs of the real sector [6]. In our opinion, this approach serves to increase the production potential of the national economy and expand the volume of import-substituting products.

Bakhodir Khodiev emphasizes the need to strengthen the intermediary role of the banking system in the use of foreign financial resources [7]. In our opinion, the participation of commercial banks in the assessment and monitoring of projects significantly increases the efficiency of the use of loans.

Nodir Jumayev justifies the need to improve the system of selection and assessment of projects when using foreign credit lines [8]. In our opinion, the introduction of scientifically based selection criteria will prevent the allocation of loan funds to ineffective projects.

## **Research methodology**

In preparing this article, a comparative and critical analysis of the legal documents, the literature and Internet information used, and the scientific and theoretical views of economists on the topic were carried out. In the course of studying the topic, along with general economic methods, systematic analysis, generalization, abstract-logical thinking, and statistical methods were used.

## **Analysis and discussion of results**

Foreign credit lines are a set of long- and medium-term financial resources allocated by international financial institutions, foreign banks or governments for specific purposes. Their main task is to finance priority sectors of the economy, increase investment activity and stimulate economic growth.

Theoretically, the effectiveness of foreign credit lines is ensured through several economic mechanisms:

Firstly, the mechanism of optimal resource allocation. According to this mechanism, credit funds should be directed to sectors that create the highest added value. This increases economic efficiency and has a positive effect on GDP growth. In our opinion, the combination of market mechanisms with the strategic priorities of the state is important in the optimal allocation of resources.

Secondly, the mechanism of multiplicative effect. When foreign loans are introduced into the economy, they affect economic activity not only as direct investment, but also indirectly by creating new jobs, increasing demand and expanding production. In our opinion, this mechanism is especially effective in supporting small businesses and private entrepreneurship.

Thirdly, the institutional mechanism. The effective use of foreign credit lines depends on the level of development of the institutional environment - that is, the legal framework, financial infrastructure and management system. In our opinion, in the absence of an effective institutional environment, even large amounts of credit resources will not produce the expected results.

Fourthly, the risk management mechanism. Foreign loans are associated with factors such as currency risk, interest rate risk and credit risk. Their effective management determines the overall effectiveness of credit lines. In our opinion, risk diversification and the use of hedging instruments are important tools for increasing efficiency.

Fifthly, the monitoring and evaluation mechanism. It is necessary to have a system for constant monitoring and evaluation of the effectiveness of the use of credit funds. In our opinion, the introduction of a monitoring system based on modern digital technologies will significantly increase efficiency.

The experience of foreign countries shows that the effective use of credit lines directly depends on the country's economic policy and level of institutional development.

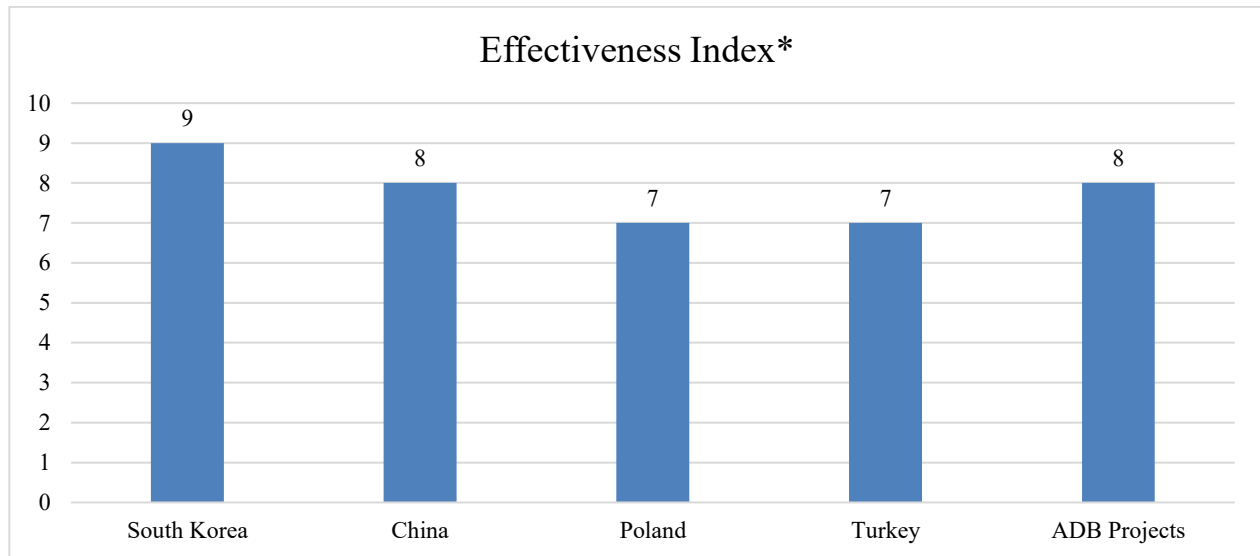
For example, in the experience of South Korea, foreign credit lines were aimed at modernizing industry and developing export-oriented production [9]. As a result, high economic growth was achieved in the short term. In our opinion, the experience of South Korea shows the importance of directing credit funds to specific strategic goals.

In the practice of China, foreign loans were mainly directed to infrastructure projects, which ensured the stability of economic growth [10]. In our opinion, investments in infrastructure serve to increase long-term economic efficiency.

In the experience of Poland, credit lines from the European Union and international financial institutions are aimed at supporting small businesses [11]. This has led to the diversification of the economy. In our opinion, it is possible to ensure economic stability by financing small businesses.

In the experience of Turkey, foreign credit lines were redistributed through the banking system and served to develop the private sector [12]. In our opinion, strengthening the intermediary role of banks increases the efficiency of credit use.

Also, a strict monitoring and evaluation system has been introduced to improve the efficiency of using credit lines in projects financed by the Asian Development Bank [13]. In our opinion, a monitoring system based on international standards will increase the effectiveness of using credit funds.



**Figure 1. Comparative Effectiveness of Foreign Credit Line Utilization (Based on International Experience) [14]**

The table below shows that the effectiveness of using foreign credit lines is formed based on different approaches in different countries. Based on the data in it, the following scientific conclusions can be drawn.

Firstly, the highest efficiency indicator is observed in South Korea. This is explained by the fact that credit lines are directed by the state to specific strategic areas - mainly industry and exports.

Secondly, the Chinese experience also demonstrates high efficiency. Here, the main focus is on infrastructure projects. Loans directed to transport, energy and logistics systems have had a multiplier effect on the development of the entire economy. In our opinion, loans directed to infrastructure may not bring direct income, but they dramatically increase economic activity in the long term.

Thirdly, in the Polish experience, efficiency is relatively moderate, where loans are aimed at supporting small and medium-sized businesses. The combination of loans with grants and subsidies has ensured economic diversification.

Fourth, in the Turkish experience, foreign credit lines are directed to the economy mainly through the banking system. Commercial banks, as financial intermediaries, play an important role in the distribution and monitoring of loans.

Fifth, in the case of Asian Development Bank projects, the monitoring and evaluation system stands out as an important factor in efficiency. Each project is under constant control and is evaluated based on performance criteria.

In recent years, Uzbekistan has been implementing large-scale institutional and economic reforms aimed at increasing the efficiency of using foreign credit lines. In particular, the system of attracting external financial resources by the state and directing them to priority sectors has been improved. In this process, investment policy has been focused on modernizing industry, developing infrastructure, and increasing export potential [15].

The role of the banking system in the effective allocation of foreign credit lines to the economy has also been significantly strengthened. Mechanisms for refinancing credit funds through commercial banks have been introduced, and support for small businesses and private entrepreneurs has been

expanded [16]. This contributes to the distribution of financial resources in accordance with the needs of the real sector.

In addition, the monitoring and control system for the use of foreign credit lines has been improved. New mechanisms have been introduced to assess the effectiveness of projects financed within the framework of state programs, ensure their targeted use, and determine performance indicators [17]. This makes it possible to prevent the ineffective use of credit funds.

Another important area is cooperation with international financial institutions. In particular, various investment projects are being implemented in cooperation with the World Bank, the International Monetary Fund, and the Asian Development Bank [18]. Within the framework of this cooperation, not only financial resources are being attracted, but also advanced experience and management technologies.

At the same time, in recent years, the public debt management system has been improved, and measures are being taken to maintain the external debt burden at an acceptable level. Medium and long-term debt strategies have been developed, and a risk management system for using credit lines has been introduced.

**Table 1 Key Indicators of Uzbekistan’s External Debt and Foreign Credit Utilization [14]**

Indicator	2020	2022	2024	2025 (est.)
Public Debt (USD, billion)	~24	~35	~40.2	~44–46
External Debt (USD, billion)	~19	~29	~36	~36.7–40
External Debt to GDP (%)	~36%	~55%	~61.4%	~60%+
Share of IFIs (International Financial Institutions)	~50%+	~54%	~56%	~56%
Major Creditors	WB, ADB	WB, ADB	WB, ADB	WB (~\$8.9 bn), ADB (~\$8.3 bn)

The data presented in the table indicate a steady increase in Uzbekistan’s public and external debt over the observed period. Public debt rose from approximately USD 24 billion in 2020 to an estimated USD 44–46 billion in 2025, while external debt followed a similar upward trend. This reflects an expansion in the use of foreign financial resources to support economic activity and investment processes.

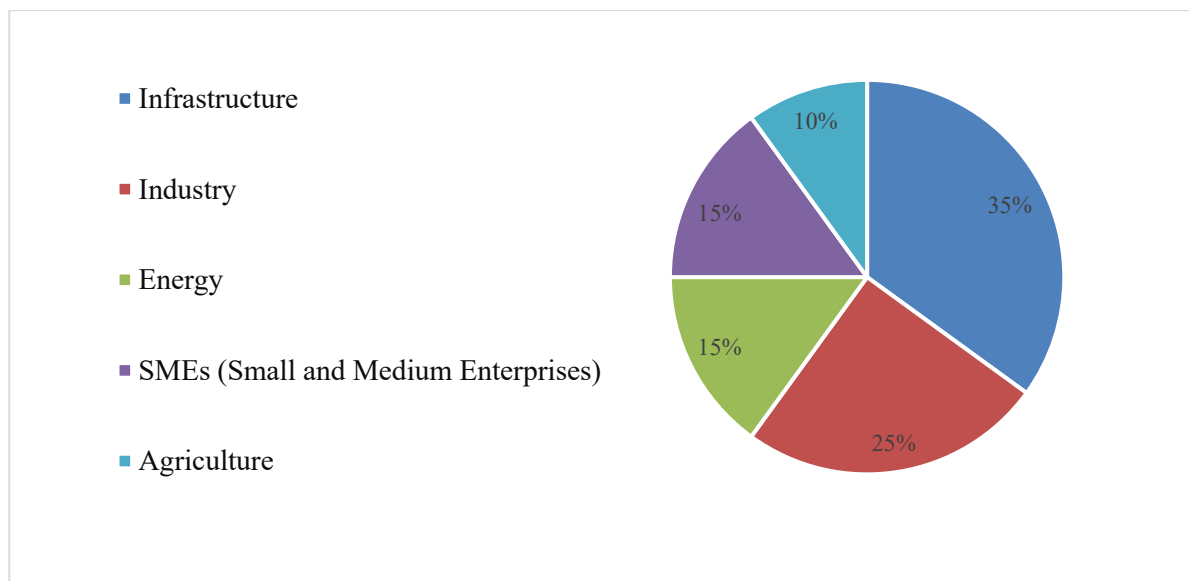
The ratio of external debt to GDP also increased significantly, from around 36% in 2020 to over 60% by 2024–2025. This suggests that the growth rate of external borrowing has outpaced GDP growth during this period. From an analytical perspective, such dynamics require careful assessment of debt sustainability, particularly in relation to repayment capacity and economic output.

Another notable feature is the consistently high share of international financial institutions (IFIs) in the external debt structure, exceeding 50% throughout the period. This indicates a reliance on multilateral financing sources such as the World Bank and Asian Development Bank. These institutions typically provide long-term financing with relatively favorable conditions, which can mitigate short-term financial pressure compared to commercial borrowing.

The concentration of major creditors around a limited group of institutions also highlights a relatively structured borrowing pattern. While this may simplify coordination and monitoring, it also implies limited diversification of external financing sources.

Overall, the table demonstrates that foreign credit resources have become a significant component of financial inflows. At the same time, the upward trend in debt indicators emphasizes the importance of efficient allocation, return on financed projects, and alignment between borrowing volumes and economic performance.

When assessing the effectiveness of using foreign credit lines, it is important to analyze their distribution by economic sectors. Because the sectors to which credit resources are directed determine the level of their impact on economic growth. In the experience of Uzbekistan, foreign loans are mainly directed to the development of infrastructure, industry, energy, and small business. The figure below shows the distribution of foreign credit lines by economic sectors.



**Figure 2. Distribution of Foreign Credit Utilization by Economic Sectors (Uzbekistan) [14]**

As can be seen from the graph above, the largest share of foreign credit lines is directed to the infrastructure sector, its share is 35 percent. This indicates that the development of transport, logistics and communication systems is a priority in the economy. Infrastructure projects are usually distinguished by ensuring long-term economic efficiency.

The industrial sector takes second place with a share of 25 percent. This indicates that investments aimed at modernizing production, introducing new technologies and increasing export potential are a priority.

Energy and small businesses (SMEs) each have a share of 15 percent, which reflects an approach aimed at ensuring economic stability and developing entrepreneurship. Funds directed to the energy sector play an important role in ensuring the continuity of production.

The share of the agricultural sector is 10 percent, which is lower than in other sectors. This situation indicates the need to further expand the possibilities of using foreign loans in this area.

In general, the analysis of the graph shows that foreign credit lines are mainly directed to strategic and highly productive sectors of the economy.

Foreign credit lines are one of the important instruments for attracting investment resources in the modern economic system. Through them, countries have the opportunity to compensate for the lack of domestic financial resources, develop priority sectors of the economy, and implement structural

changes. Theoretically, the effectiveness of using foreign credits is determined by their economic return, that is, the added value created at the expense of the attracted funds and the rate of economic growth.

In the conditions of Uzbekistan, foreign credit lines have become one of the important financial sources of economic development. They are mainly directed to the infrastructure, industry, and energy sectors, which serves to ensure the structural modernization of the economy. At the same time, the effectiveness of using credits largely depends on the quality of project selection, the transparency of financing mechanisms, and the effectiveness of the monitoring system.

Based on theoretical approaches, it can be said that the effective use of foreign credit lines is determined by the following factors: optimal allocation of resources, the development of the institutional environment, the effectiveness of the financial intermediation system, and the level of risk management. The combination of these factors enhances the positive impact of credit funds on economic growth.

The results of the general analysis show that the system of using foreign credit lines in Uzbekistan is gradually improving and it serves to support the priority areas of the economy. At the same time, current trends indicate the need to further increase the efficiency of using loans, direct them to high-yield projects, and strengthen the system for assessing effectiveness.

As a final conclusion, it can be noted that foreign credit lines are an important tool for stimulating economic growth, and their effectiveness is ensured through the right economic mechanisms, effective management, and carefully selected investment projects.

## **Conclusion and Suggestions**

The results of the conducted research show that foreign credit lines play an important role in the development of the national economy and compensate for the shortage of investment resources through them. This source is especially important in financing capital-intensive sectors such as infrastructure, industry and energy. At the same time, the effectiveness of the use of foreign credits is determined not only by their volume, but also by the quality of their management, targeted orientation and economic return.

The analysis showed that the effectiveness of foreign credit lines depends on a number of important factors. In particular, the level of optimal resource allocation, the development of the institutional environment, the effectiveness of the financial intermediation system, the availability of risk management mechanisms and the strength of the monitoring and control system are the main factors. Foreign experience, in particular the practice of South Korea, China and other countries, confirms that high economic results can be achieved by directing credit funds to strategic areas.

The system of using foreign credit lines in Uzbekistan is developing consistently. Although loans are mainly directed to priority sectors, in some cases their effectiveness is not high enough. This is explained by shortcomings in project selection, insufficient development of the monitoring system, and imperfect risk assessment mechanisms. Therefore, there is a need to develop additional measures in this area.

On this basis, the following proposals can be put forward to increase the efficiency of using foreign credit lines. First of all, it is necessary to prioritize the allocation of loan funds to sectors that create high added value and increase the export potential of the economy. This will serve to increase the

economic return on the resources involved and ensure effective management of the external debt burden.

Secondly, it is necessary to radically improve the system for selecting and evaluating investment projects. Each project should be thoroughly analyzed based on criteria such as economic efficiency indicators - internal rate of return (IRR), net present value (NPV), and payback period. This will prevent the allocation of loan funds to ineffective projects.

Thirdly, it is important to strengthen the role of commercial banks in the allocation and control of foreign credit lines. Expanding the mechanisms for refinancing loans through the banking system, improving the risk assessment system for credit allocation, and diversifying the loan portfolio will increase efficiency.

Fourthly, it is necessary to further develop the monitoring and control system for the use of foreign loans. It is advisable to introduce a system for real-time monitoring of projects based on modern digital platforms, assessing their implementation level and economic efficiency. This will ensure the targeted use of funds and reduce corruption risks.

Fifthly, it is necessary to improve the external debt management system. In particular, debt sustainability can be ensured by diversifying the debt portfolio, reducing currency risks, and prioritizing long-term and preferential loans. This will serve to strengthen macroeconomic stability.

As a final conclusion, it can be noted that increasing the efficiency of using foreign credit lines requires a comprehensive and systematic approach. That is, the combination of strategic planning, an effective institutional environment, a strong financial intermediation system, and modern monitoring mechanisms ensures high economic results.

## References

1. Stiglitz J. E. The overselling of globalization //Business Economics. – 2017. – T. 52. – №. 3. – C. 129-137.
2. Sachs J. D. The end of poverty: Economic possibilities for our time. – Penguin, 2006.
3. Paul R K. International Economics Theory & Policy. – 2025.
4. Reinhart C. M., Rogoff K. S. This time is different: Eight centuries of financial folly. – princeton university press, 2009.
5. World Bank. Global Development Finance Report, 2023. <https://www.worldbank.org>
6. G'aniyev, S. Milliy iqtisodiyotda investitsiya siyosati. – Toshkent, 2019.
7. Xodiyev, B. Bozor iqtisodiyoti asoslari. – Toshkent, 2020.
8. Jumayev, N. Investitsiyalarni boshqarish. – Toshkent, 2018.
9. World Bank. The East Asian Miracle: Economic Growth and Public Policy. 1993. <https://documents.worldbank.org>
10. Lin, J.Y. New Structural Economics. World Bank, 2012. <https://www.worldbank.org>
11. OECD. Economic Surveys: Poland, 2020. <https://www.oecd.org>
12. IMF. Turkey Financial Sector Assessment, 2019. <https://www.imf.org/>
13. Asian Development Bank. Project Performance Reports, 2021. <https://www.adb.org>
14. Formed by the author as a result of scientific research.
15. Resolution of the President of the Republic of Uzbekistan No. PR – 4300 dated April 29, 2019 “On measures to improve mechanisms for attracting foreign direct investment to the economy” <https://lex.uz/docs/4312785>

16. Central Bank. “Annual Report of the Central Bank of the Republic of Uzbekistan for 2023”.  
<https://cbu.uz/uz/publications/annual-reports/>
17. Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 385 dated June 22, 2020.  
“On improving the system of implementation and monitoring of investment projects”  
<https://lex.uz/docs/4865755>
18. World Bank. “Uzbekistan Country Partnership Framework 2022–2026”.  
<https://documents.worldbank.org>