

## Analysis of Functional Elements of Public Debt Management

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**Abstract:** In the article, there are given several aspects on Public Internal and Foreign Debt, Public Debt Management, Scientific Proposals and Conclusions on the Budget Deficit and its Debt Servicing, Consolidated Budget, and the results of the study are defined as the functional elements of public debt management.

**Keywords:** Public budget, public internal debt, public external debt, debt, financial resources, financial instrument, central bank, finance.

### Introduction

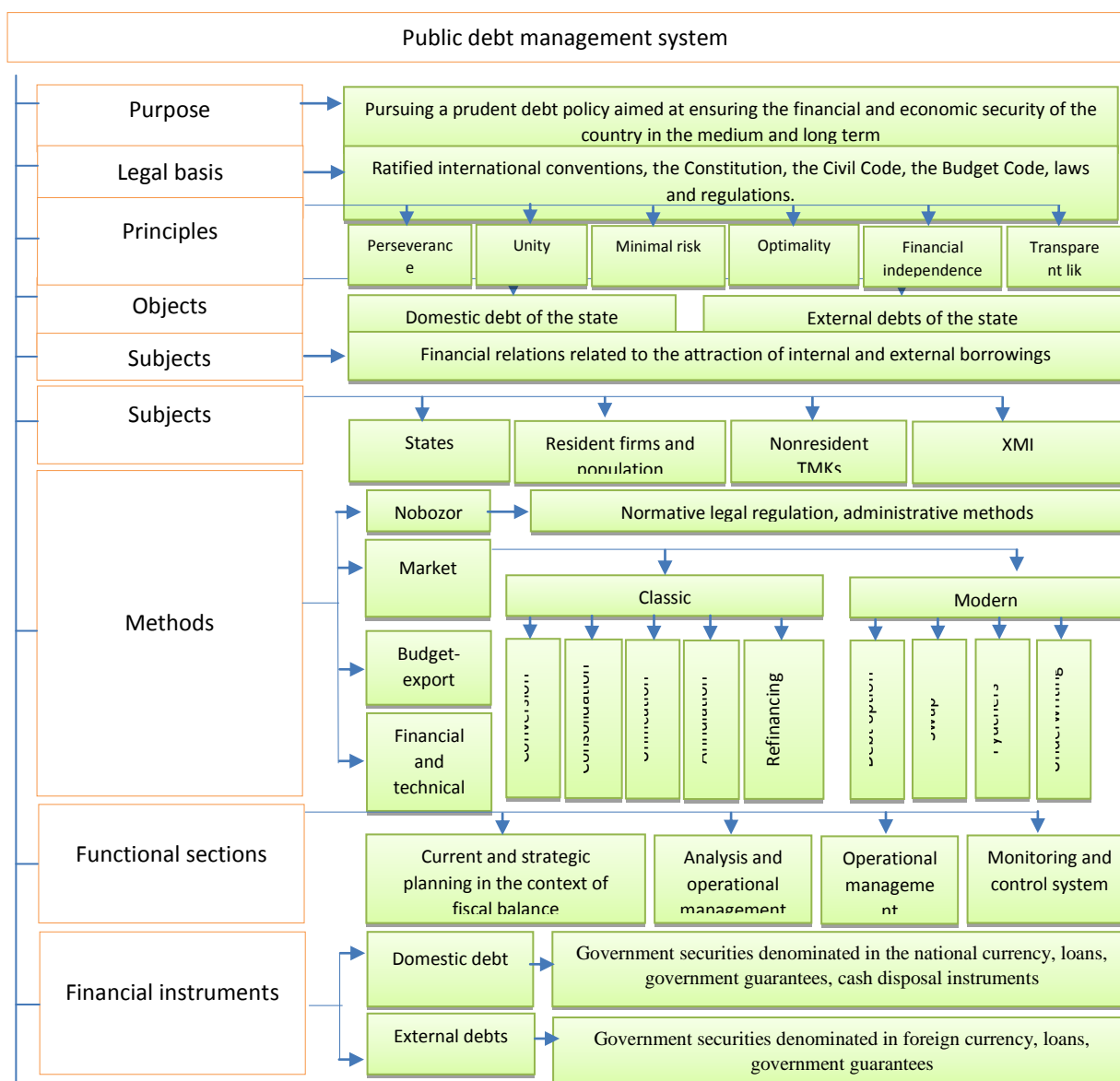
In the historical paradigm of economic growth, public debt has been developed, embodying, on the one hand, an integral element of the national economy and, on the other hand, a holistic element made up of complex elements. Public debt emerges as both a financial instrument and an object of the financial management system at the same time.

It is actively used as a financial tool by the state as one of the key fiscal instruments in the macroeconomic regulation system. Public debt as a financial instrument enables, in particular, the legislature (representative) and the executive to control the circulation of capital, financial markets, expenditure, development, employment and other economic ratios.

As an aspect of the financial management system, it is often known as an integrated system. This is because some necessary functional dimensions of government activity are reflected by public debt. The competent authorities regulate the powers to manage various debt activities, the structure of debt on maturity and profitability, determine the procedure for issuing government debt instruments, government guarantees, payment, as well as the fulfillment of financial obligations on them.

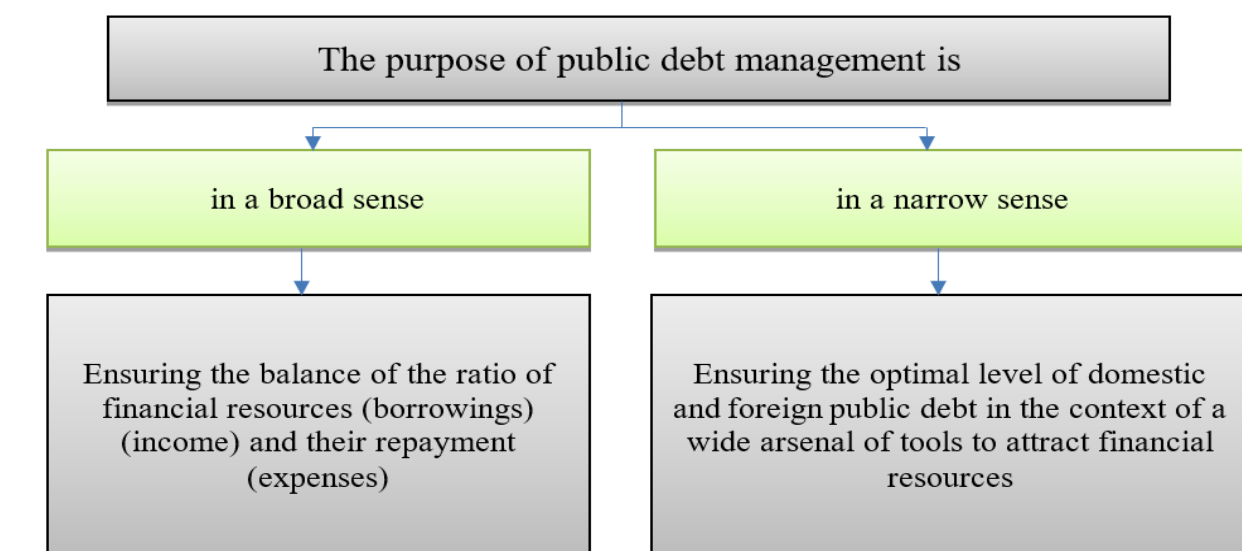
Public debt management is viewed in a narrow and broad sense.

In the narrow sense, the management of public debt relates to a collection of policies relating to the issuance and placement of obligations relating to public debt, the maintenance, repayment and refinancing of public debt, as well as the regulation of the market for public securities. In a limited sense, debt management is carried out by the executive branch, namely the Ministry of Finance and the Central Bank. We will look at the public debt management system through the following figure.



**Figure 1. Elements of the public debt management system**

As can be seen from Table 1, public debt management is integrated into a holistic system of complex elements. That is the main goal to pursue a prudent debt policy aimed at ensuring the financial and economic security of the country in the medium and long term. The effective realization of this goal depends on the process organization of the public debt management system in the broadest sense. Especially in this formation of one of the directions of the state economic policy related to its activity as a borrower. Public debt management is broadly the prerogative of the legislature and is the formulation of public debt policy.



**Figure2. Public debt management goals in a broad and narrow sense**

In particular, the creation, in accordance with Figure 2, of marginal parameters and public debt indicators; the identification of the key factors and objectives of the effect on macroeconomic indicators; the incorporation of procedures such as the assessment of the appropriateness of financing by means of national public debt programs.

It is well known that the successful accomplishment of the set target of public debt management depends on a systematically formed task algorithm, like any management method. These tasks are built in line with the dozarb problems found during this or that era of economic reforms.

In the public debt management process, the following issues will be tackled:

- Maintenance of public internal and external debt, which is neutral to the financial security of the country;
- minimizing the value of gross indebtedness by extending the term of the bond and minimizing the cost of debt service;
- maintaining the Government's credit rating through timely and full repayment of financial obligations;
- ensuring the transparency of segments in the securities market by ensuring the stability of government securities
- ensuring the efficient use of borrowed funds;
- diversification of loan portfolios in terms of total debt, terms of payment, forms of income payment and other parameters;
- Unified coordination of the activities of state and local authorities in the market of debt instruments. It is expedient to define the management of public debt in a narrow and wide range.

Regulating the amount of the state's internal and external debt and keeping it at an appropriate level is important for the management of public debt, which is effectively accomplished by setting a number of constraints.

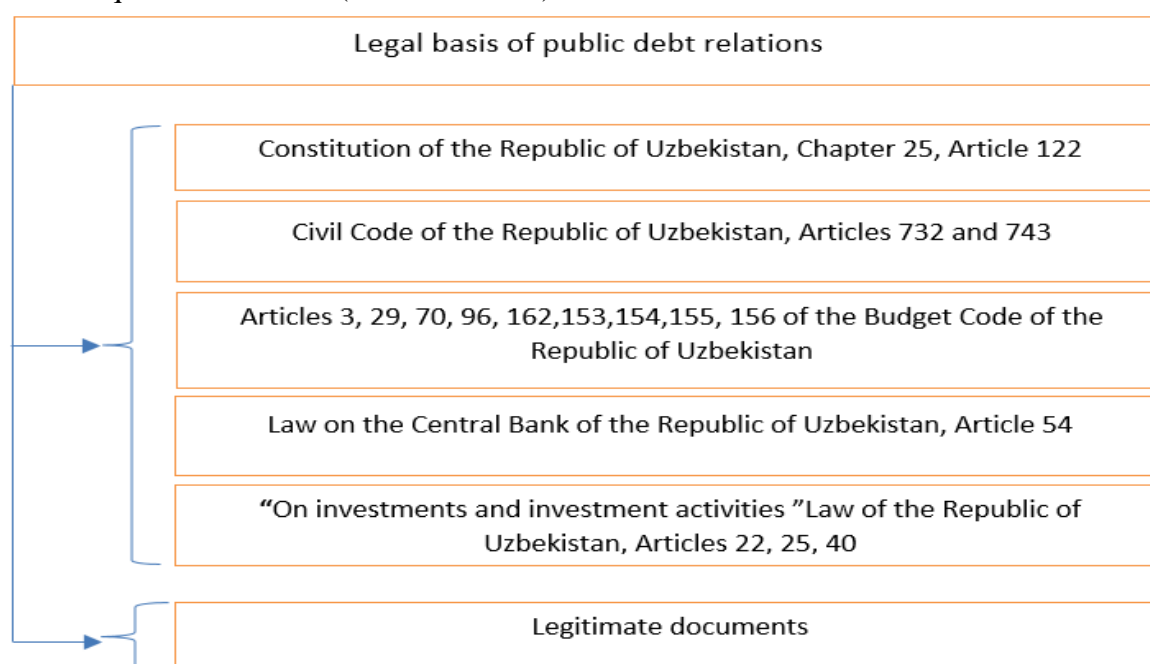
A legislative structure for public debt policy was established by the Republic of Uzbekistan. The marginal sum of internal and external debt shall, in particular, be controlled by legislation

passed by Parliament and by statutory acts established by the operational authorities. Via the picture details below, we will attempt to review this.

In accordance with the Constitution of the Republic of Uzbekistan, the Republic of Uzbekistan has its own financial and monetary system. So, one of the integral elements of the financial system is the public debt system.

### Materials and methods

The Civil Code of the Republic of Uzbekistan clarifies the concepts of debt and credit. According to him, the contractual nature of debt obligations has been clarified and “Under a loan agreement, one party (the lender) transfers to the other party (the borrower) money or other items marked with type characteristics, and the borrower gives the lender a lump sum or in installments of the same amount of money or the type and quality of the borrowed items. and undertakes to return the equivalent amount (amount of debt)”.



**Figure 3. Legislation on public debt and its management in Uzbekistan**

The Code also clarifies the types of debt obligations, such as promissory notes, bonds and government loan agreements, as well as obligations arising from conversion transactions, which are widely used in public debt.

Article 743 of the Civil Code clarifies the subjects of public debt relations. According to it, the state loan agreement clarifies the role of the state as a unilateral borrower and the participation of citizens or legal entities as creditors.



**Figure 4. Subjects of state loan agreements in accordance with the Civil Code of the Republic of Uzbekistan**

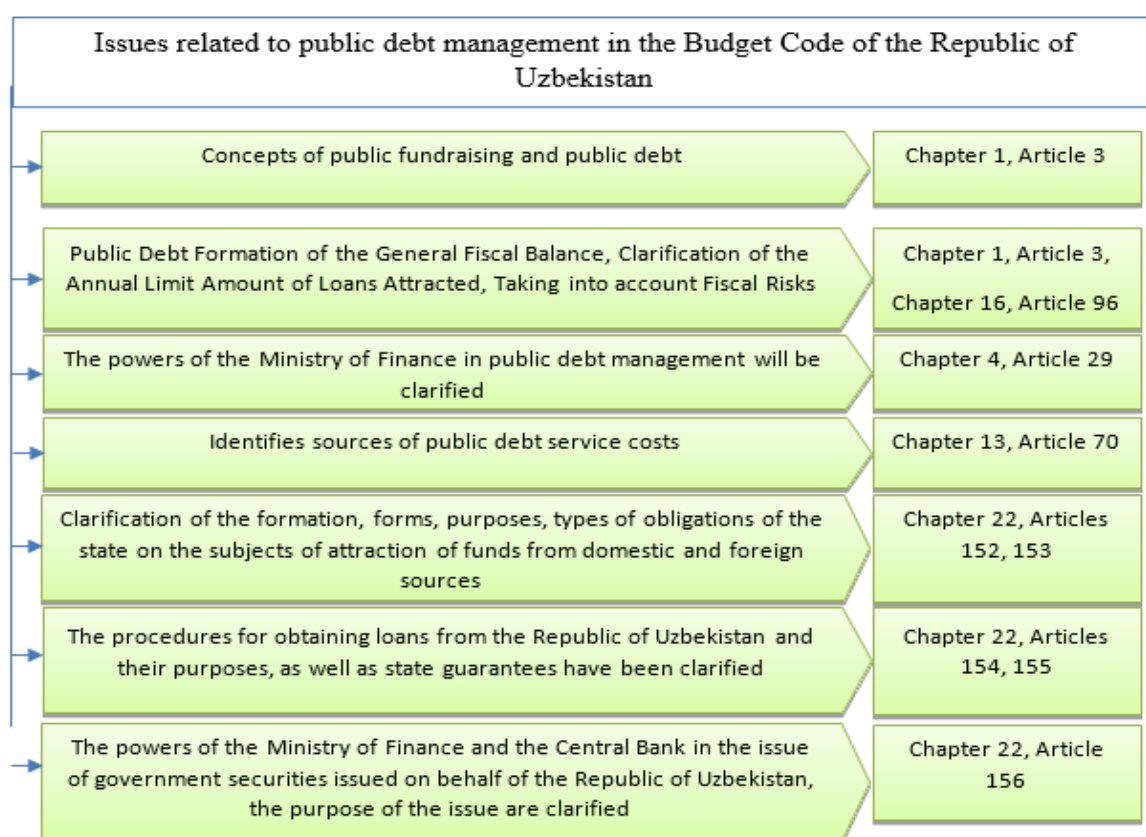
### Republic of Uzbekistan.

Thus, the source of public debt is the funds formed at the expense of personal income of legal entities and individuals (Sh; Sc). Because, according to the Civil Code, government bonds have a voluntary character, the main limiting criterion of demand for it is the average value of capital in the country. Expenditures on servicing public debt (debt amortization and interest) are carried out at the expense of income (Pi).

This article also sets out the rules for the movement of tangible and financial assets by the lender in the purchase of loans, changes in the terms of the loan and the joint and several liability of the state.

Thus, the Civil Code of the Republic of Uzbekistan clarifies the content of public debt obligations, the subjects and regulations of public loan agreements.

One of the important legislative bases of public debt management is the Budget Code of the Republic of Uzbekistan, which states:



**Figure 5. Organizational scheme of issues related to public debt management in the Budget Code of the Republic of Uzbekistan.**

As we can see from Figure 5, Article 3 of the Budget Code of the Republic of Uzbekistan highlights two important aspects of the formation of obligations by the state through the attraction of funds. In particular, it states that the obligations arise as a guarantor of the repayment of debts of the Republic of Uzbekistan, both the direct borrower and the resident. It is also clarified that public debt consists of liabilities as a result of attracting internal and external funds to the main source.

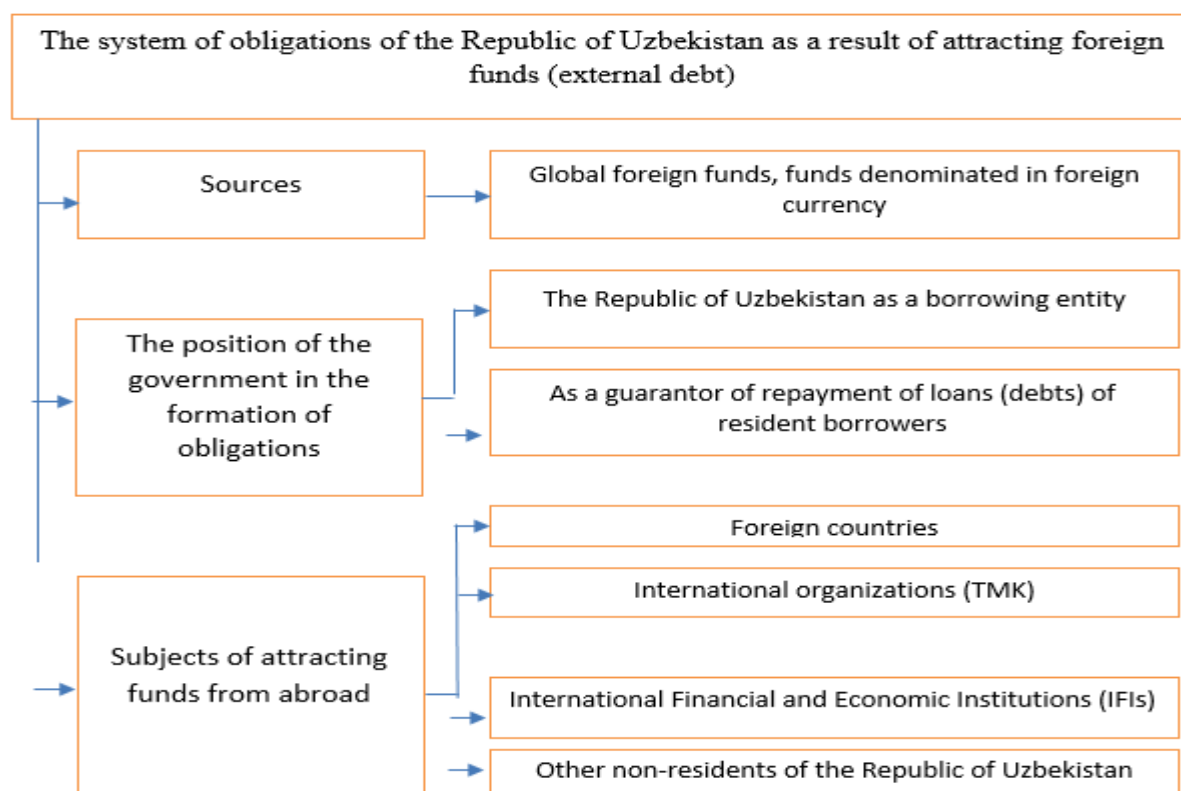
Public debt is the main fiscal balance as a key element of public finance formation, the medium-term fiscal policy is perceived as a coherent object of the formation of the future plan.

This, in turn, creates opportunities for targeting the medium-term outlook at a possible level of public debt policy. Such coordinated forward-looking planning creates the conditions for the correct assessment and minimization of fiscal risks through the formation of a system of mutual management of revenues and expenditures of various funds in the consolidated budget.

In the "Budget Code of the Republic of Uzbekistan" as the powers of the budget of the Republic of Uzbekistan registration of agreements and state guarantees of the Republic of Uzbekistan on attraction of funds by the state, as well as accounting and monitoring of public debt. Hence, monitoring, which is an important functional section of public debt management. The Ministry of Finance of the Republic of Uzbekistan is responsible for the management. This authority is logically related to the fact that the costs associated with the servicing of public debt are financed from the national budget.

Article 152 of the Budget Code of the Republic of Uzbekistan establishes the procedure for establishing obligations of the state to attract domestic funds as a borrower.

It also clarifies the forms and subjects of external borrowing. We can see this from the image data below. In the system of obligations as a result of attracting funds from abroad, the government participates in 2 positions: the direct borrower, as well as the guarantor of the obligations of the borrower residents.



**Figure 6. In accordance with the Budget Code of the Republic of Uzbekistan system of liabilities as a result of attracting funds from abroad**

In addition, foreign financial resources will be attracted from 3 main sources. These are: foreign countries, transnational companies and transnational banks, international financial and economic organizations and other non-residents.

### Result and discussion

This article outlines the main directions of the use of funds raised by the state.

From the data in Table 1, we can see that government borrowings can be used as a source of funding for the socio-economic development of the country, the active and passive deficit of the state budget, and as a financial mechanism for managing existing debt.

**Table 1**  
**Directions for the use of funds raised by the state**

<b>№</b>	<b>Directions for use</b>	<b>Efficiency criteria</b>
1.	Priorities for economic development	A factor in the strategic development of priority sectors of the economy
2.	Financing of state development programs	Source of funding for public investment programs
3.	Public debt refinancing	Financial mechanism of public debt management
4.	Coverage of the state budget deficit	Ensuring the balance of the state budget, a source of financing

In our opinion, one of the most important objectives in these areas of use has not been clarified. For example, the main purpose of issuing short-term government bonds, which are one of the instruments of public debt in the current situation, is to prevent temporary cash disruptions in the state budget. In general, government securities are issued for a wide range of purposes. One such goal is to finance the temporary difference in time and space between state budget revenues and expenditures. In this case, public debt instruments are a financial instrument to eliminate the liquidity associated with the temporary cash gap, rather than the solvency associated with the problem of deficit inherent in the state budget.

The following are the types of government funding:

- loans;
- State guarantees of the Republic of Uzbekistan
- Debt obligations on government securities issued on behalf of the Republic of Uzbekistan

Debt obligations are defined as short-term (up to one year), medium-term (one to five years) and long-term (five years or more) and are issued in financial instruments such as bonds and treasury bonds.

Medium-term treasury bonds, while the main purpose of the issuance of short-term debt obligations is to ensure current liquidity and long-term bonds are a potentially attracted public investment resource.

Government Medium-Term Treasury Commitments- Issued by the Ministry of Finance of the Republic of Uzbekistan in an undocumented form, it is a government security that confirms that investors have contributed funds for expenditures financed from the state budget and receives interest at face value. Investors of these government securities are legal entities in accordance with the law.

In world practice, the main difference between treasury obligations and bond loans confirms that they can also be placed with individuals. But in most cases they are included in the category of bonds as a type of debt obligation.

The value at the moment of repayment of treasury obligations is determined by its nominal value, term and interest rate.

$$K_t = N + N * (T / 360) * (r / 100) \quad (2.1),$$

here,

**K<sub>t</sub>**- redemption value of treasury obligations;

**N**- nominal value of treasury obligations;

**T**- term of treasury obligations;

**R**-interest rate.

2019 A new era in the public debt policy of the Republic of Uzbekistan has begun in Resolution of the President of the Republic of Uzbekistan on coordination of the process of obtaining a sovereign credit rating of the Republic of Uzbekistan, issuance and placement of sovereign and corporate (bank) bonds. Based on this decision On February 13, 2018, for the first time in the history of Uzbekistan, 5-year Eurobonds worth \$ 500 million were placed at 4.75%, and 10-year Eurobonds worth \$ 500 million at 5.375%.

The placement of these foreign securities thus laid the groundwork for a scheme of attracting public debt policy funds in the form of funds (Eurobonds) in the form of credit.

It should be noted that loans attracted as public debt are in accordance with applicable law

- to finance or co-finance government development programs;
- re-lending (loans) to finance measures for the implementation of development programs of industries, sectors of the economy and regions.

In refinancing operations on these loans, it is envisaged to set an interest margin in the amount not exceeding 50% of the established rates on loans attracted.

Article 155 of the Budget Code of the Republic of Uzbekistan states that one of the most widely used types of debt instruments is the state guarantees of the Republic of Uzbekistan and the procedure for their issuance. Also in the registration of state guaranteesThe powers of the Ministry of Finance of the Republic of Uzbekistan and the right to unconditionally recover from the borrower-resident the amount of payments made and the costs associated with them after making payments conditioned by the state guarantees issued.

**Table 2**

**Separation of powers in the process of issuance and circulation of government securities issued on behalf of the Republic of Uzbekistan**

№	Name of powers	UzRMV	UzRMB
1.	Issuance of government securities on behalf of the Republic of Uzbekistan	+	
2.	Public debt service costs	+	
3.	Placement of government securities issued by the Ministry of Finance of the Republic of Uzbekistan		+
4.	Payment of value, interest and other charges on government securities		+
5.	Maintaining accounts on government securities and performing payment transactions on them		+
6.	Carrying out other operations on government securities		+

According to the current legislation, the powers of the Ministry of Finance and the Central



Bank of the Republic of Uzbekistan during the issuance and circulation of government securities are clearly defined.

The powers 3,4,5,6 in Table 2 belong to the Central Bank, within which the Central Bank acts as a fiscal agent of the government. Duties to be performed within the scope of these powers. It is also stipulated in the Law "On the Central Bank of the Republic of Uzbekistan".

Thus, it can be concluded from the above that the Central Bank acts as a fiscal agent for the placement and servicing of debt instruments under the authority of the Ministry of Finance of the Republic of Uzbekistan for the issuance of government securities and payments for public debt (from the national budget).

Also The Central Bank will act as a consultant to the Ministry of Finance of the Republic of Uzbekistan, taking into account the schedule and volume of government securities issuance and public debt repayment, their impact on the liquidity of the banking system and monetary policy priorities.

In the effective management of public debt, it is important to separate the system of strategic and operational management and the powers of the various actors involved.

Decision-making on strategic issues of public debt management is the prerogative of the Oliy Majlis and the President of the Republic of Uzbekistan. Therefore, according to the current legislation, the Oliy Majlis of the Republic of Uzbekistan when adopting the State Budget for the next fiscal year approves the maximum amounts of domestic and foreign debt. The Cabinet of Ministers of the Republic of Uzbekistan or a body authorized by it shall take other actions by the state to attract domestic and foreign funds and increase public debt.

The Oliy Majlis and the President of the Republic of Uzbekistan shall approve the developed programs for the socio-economic development of the country in the near and medium term and submit them to the Cabinet of Ministers for implementation. The government's short- and medium-term debt policy also takes into account the involvement of projects in the financing of these programs.

The Cabinet of Ministers is responsible for the operational management of public debt, with the Ministry of Finance and the Central Bank having broad powers.

### **Conclusion**

In conclusion, the classic form of public debt is a way of monetizing the deficit by funding the costs associated with the provision of social (wealth) benefits, which, as an economic agent of the state, should be of equal interest to everyone.

Modern public debt theory's philosophical roots and aims are complex. At the same time, in the collective political and social interests, public debt embodies not only economic interests, but also the size of the international movement of capital. Public debt also embodies a global mechanism in the economic platform for resource utilization in the context of entrepreneurship and resource scarcity, rather than economic insolvency.

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