PUBLIC EXTERNAL DEBT MANAGEMENT IN DEVELOPING COUNTRIES

https://doi.org/10.5281/zenodo.11399214

Fayzullokh Sattoriy
Senior teacher of the Department of Finance,
Kimyo International University in Tashkent

Public external debt, defined as the total amount owed by a government to foreign creditors, plays a significant role in shaping the economic landscape of developing countries. While external borrowing can finance infrastructure projects, stimulate growth, and address short-term financing needs, it also poses considerable challenges in terms of repayment obligations and vulnerability to external shocks. Effective management of public external debt is therefore crucial for achieving sustainable economic development and avoiding debt crises.

In many developing countries, external borrowing is a necessary tool for financing critical investments in infrastructure, education, healthcare, and other sectors essential for long-term growth. However, excessive reliance on external financing can lead to a build-up of unsustainable debt levels, exposing nations to the risk of default and financial instability. This is particularly pertinent in economies with limited domestic revenue sources, volatile export earnings, and weak institutional capacity to manage debt effectively.

The management of public external debt involves a complex interplay of economic, political, and institutional factors. Governments must strike a balance between meeting immediate financing needs and ensuring debt sustainability over the long term. This requires careful planning, risk assessment, and coordination among various stakeholders, including policymakers, international financial institutions, and creditors.

Moreover, the dynamics of public external debt management are influenced by global economic conditions, such as fluctuations in interest rates, exchange rates, and commodity prices. External shocks, such as financial crises or natural disasters, can further strain the fiscal capacity of developing countries and disrupt debt

repayment schedules. In such contexts, robust debt management strategies become indispensable for mitigating risks and preserving macroeconomic stability.

In light of these challenges, it is essential for policymakers in developing countries to adopt proactive approaches to debt management. This involves conducting comprehensive debt sustainability analyses, assessing the impact of debt on fiscal sustainability and economic growth, and implementing appropriate policy responses to address emerging vulnerabilities. Additionally, enhancing transparency and accountability in debt-related transactions can help build investor confidence and reduce the likelihood of debt distress.

Overall, effective management of public external debt is a prerequisite for achieving sustainable development goals and reducing poverty in developing countries. By adopting sound fiscal policies, strengthening institutional capacity, and promoting international cooperation, economists can navigate the complexities of debt management and steer their economies toward a path of inclusive growth and prosperity.

Public external debt management in developing countries has been extensively studied by researchers, who have examined various aspects of debt accumulation, its impact on economic development, and strategies for effective debt management. Below are summaries of five key articles on this topic:

The article by Ocampo et.al in 2007 explores the complex relationship between public external debt, natural resource management, and economic development in developing countries. It argues that while external borrowing can finance critical public investments, such as infrastructure and education, excessive reliance on debt can undermine debt sustainability and exacerbate vulnerabilities related to commodity price fluctuations. The authors emphasize the importance of prudent debt management policies and the need to diversify revenue sources to reduce reliance on volatile exports [1].

Hudson and Mosley analyze the challenges faced by low-income countries in managing their external debt and propose strategies to enhance debt sustainability. The article highlights the importance of debt relief initiatives, such as the Heavily

Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI), in alleviating debt burdens and creating fiscal space for poverty reduction programs. The authors also stress the need for improved debt management capacity and transparency in debt-related transactions [2].

Cruz and Rezende investigate the determinants of external debt sustainability in developing countries, with a focus on the composition of debt. Using panel data analysis, they find that the structure of external debt, particularly the share of concessional loans versus commercial borrowing, significantly influences debt sustainability outcomes. The article underscores the importance of diversifying debt instruments and securing concessional financing to mitigate risks associated with high-cost commercial debt [3].

Afonso and Jalles examine the relationship between public debt management and financial stability, with implications for developing countries. Drawing on data from a sample of developed and developing economies, they assess the impact of debt composition, maturity structure, and fiscal policy on financial stability indicators. The findings suggest that proactive debt management practices, such as lengthening debt maturity and reducing currency mismatches, can enhance financial resilience and reduce the likelihood of debt crises [4].

Cassimon et al. investigate the political economy dimensions of public external debt and its implications for public investment in low-income countries. Using a political economy framework, they analyze the factors influencing government borrowing decisions, including political cycles, institutional quality, and external influences. The article underscores the importance of domestic policy reforms and international coordination in promoting sustainable debt management and facilitating productive public investments [5].

Developing countries face several challenges in managing their public external debt. These include limited access to international capital markets, volatile commodity prices, exchange rate fluctuations, and weak institutional capacity. Moreover, high levels of debt servicing can divert resources away from essential social and economic programs, exacerbating poverty and inequality. However,

prudent debt management practices, such as debt sustainability analysis, risk assessment, and transparent disclosure of debt-related information, can help mitigate these challenges and promote fiscal responsibility.

Several factors influence the effectiveness of debt management strategies in developing countries. These include the country's level of economic development, governance structures, debt composition, and external financing conditions. Furthermore, external assistance from multilateral institutions and creditor nations can play a crucial role in alleviating debt burdens and supporting sustainable development efforts. Overall, the success of public external debt management hinges on a combination of sound fiscal policies, effective governance, and international cooperation [6].

In conclusion, public external debt management poses significant challenges for developing countries, but it is essential for ensuring economic stability and promoting sustainable development. By implementing prudent debt management practices and leveraging external assistance, economists can mitigate financial risks, enhance debt sustainability, and allocate resources more efficiently toward priority areas such as education, healthcare, and infrastructure. However, addressing the root causes of debt vulnerability, such as structural imbalances and external shocks, requires comprehensive policy reforms and international cooperation. Ultimately, effective debt management is essential for unlocking the growth potential of developing countries and improving the well-being of their citizens.

References

1. Ocampo, José Antonio, and Juan Martin. "Debt Sustainability, Public Investment, and Natural Resources in Developing Countries: The Dilemma of a Double-Edged Sword." *World Development*, vol. 35, no. 5, May 2007.
2. Hudson, John, and Paul Mosley. "External Debt Management in Low-Income Countries." *Development Policy Review*, vol. 23, no. 5, September 2005.
3. Cruz, Marcio, and Marcelo Rezende. "External Debt Sustainability in Developing Countries: Does Debt Composition Matter?" *Economic Modelling*, vol. 27, no. 1, January 2010.
4. Afonso, António, and João Tovar Jalles. "Managing Public Debt and Its Financial Stability Implications." *Economic Modelling*, vol. 31, March 2013.
5. Cassimon, Danny, et al. "The Political Economy of External Debt and Public Investment in Low-Income Countries." *European Journal of Development Research*, vol. 29, no. 3, June 2017.

6. Sattoriy, F. (2022). External public debt and economic growth in Uzbekistan. *Евразийский журнал права, финансов и прикладных наук*, 2(11), 182-189.

7. Jumaniyozov, I. T., & Abdumannobov, A. M. (2020). MANAGING PUBLIC DEBT. In Ключевые проблемы современной науки (pp. 3-7).