Review Of Methods Of Effective Management Of External Debt Of Countries And Analysis Of Debt Sustainability Of Foreign Countries

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ABSTRACT

This thesis examines the terminology of external debt, theoretical aspects of external debt, methods of external debt regulation, examples of countries by methods of external debt regulation. During the study, an analysis of the dynamics of external debt of foreign countries, its structure and creditors and the distribution of external debt by industry were carried out. The thesis also examines the reasons for the increase in public debt and develops strategies for further reduction of public external debt.

Keywords: External debt, public debt, restructuring, refinancing, securitization, conversion, consolidation, unification and novation of external debt

Introduction:

Effective management of external debt is of great importance for the economic stability and development of the country. Proper debt management helps to avoid crises associated with the inability to service the debt. This reduces the risk of default and maintains investor confidence.

Countries with a good record of debt management can attract more foreign investment. Investors prefer to invest in economies that demonstrate the ability to effectively manage their financial obligations.

In addition, effective management helps minimize interest expenses and other costs associated with debt servicing. This frees up resources for other important government needs. Borrowed funds can be used to finance infrastructure projects, education, healthcare and other areas that promote long-term economic growth.

Reducing the debt burden allows governments to allocate more funds to social programs, improving the quality of life of the population. Countries that effectively manage their debt strengthen their reputation in the international arena, which can lead to improved conditions for obtaining new loans and cooperation with international financial organizations.

Literature review:

The study of the problem of external public debt, debt management first began to be studied in the early 1970s due to the growth of external debt of countries. Economic and theoretical aspects of external debt were studied by many scientists such as A. Smith, D. Ricardo, J. S. Mill, K. Marx, J. Keynes and others.

First of all, I would like to note that the term “public debt” is an integral part of the economic system, which has a direct and indirect impact on many of its elements, in particular, on the state budget, monetary and foreign exchange systems, the level of inflation, domestic and foreign savings, and foreign investment [2].

The definition of the term "external debt" also has several semantic interpretations. In

particular, according to International Monetary Fund the concept of "external debt" refers to debt obligations resident before non-resident and includes the principal amount debt, as well as interest, but does not include contingent liabilities that may arise later. External government debt includes: state and government-guaranteed debt, loans from international financial organizations.

When considering the national debt, the loans that the state issues to other countries are not taken into account, only its loans are taken into account. Similarly, the state's obligation to pay pensions and social benefits is not taken into account. Many experts and economists believe that a high value of the national debt has a negative impact on the state's economy and an excess of more than 100% of GDP can lead to default. Some argue that a large national debt stimulates the economic development of the country, the motivation for which is the payment of external or internal debt [5].

To date, economists have developed theoretical approaches to studying consequences of public external debt for the economy. These include: classical theory, the theory of "functional finance", the theory of crowding out, the theory of Ricardian equivalence, the theory of tax equalization, the fiscal theory of prices [4].

According to classical theory, external debt arises when the expenditures of residents of a country exceed their income, which leads to a negative balance on the current account. Government spending is unproductive, leading to the destruction of capital. It was believed that the accumulation of public debt leads to an increase in the tax burden, that loans taken today will lead to higher taxes in the future, and future generations will have to live with increased taxes. The debt burden will thus be expressed through the tax burden.

The theory of functional finance was proposed by economist Abba P. Lerner. According to this theory, external debt implies that the government can use borrowing to finance the budget deficit if it helps achieve the above objectives.

Crowding out theory concerns the impact of government spending on the economy. It argues that increased government spending can crowd out private investment because the government borrows money from financial markets, which raises interest rates and makes borrowing more expensive for the private sector.

The Ricardian equivalence theory, also known as Ricardo-Barreau equivalence, suggests that the way government spending is financed (by taxes or borrowing) does not affect aggregate demand in the economy.

Tax equalization theory suggests using the tax system to reduce income inequality. The basic idea is that progressive taxation, where higher incomes are taxed at higher rates, can redistribute income and promote social justice.

According to the fiscal theory of prices and Inflation becomes a fiscal phenomenon when the government borrows a lot and the central bank prints money in order to make borrowed funds cheaper.

The balance of payments theory assumes that when expenses exceed income, the country buys more goods and services on the world market than it sells and has a negative balance on the current account balance, and to refinance it, it is necessary to have a positive financial account, which can be created through the sale of national assets to the outside world, which is accompanied by an influx of capital into the economy.

Effective public debt management policies, along with sound macroeconomic policies and regulation, are of paramount importance to prevent any financial crises, excessive spending and reduce the country's debt burden.

For developed countries, the main indicators determining the volume of external borrowing are, first of all, the degree of development of financial markets, the diversity of financial instruments, the level of profitability of government and private sector securities. For countries with emerging markets, the main indicators are the country's investment and credit ratings, the level of openness of the economy, the investment climate, the level of gold and foreign exchange reserves, the state of the national payment system, government

policy regarding foreign direct investment (FDI), the domestic political situation, etc. [1].

Today, the following methods of regulating external debt exist:

1.**Restructuring**– is the process of changing the terms of debt repayment to ease the financial burden. This may include extending repayment terms, lowering interest rates, or writing off part of the debt. Restructuring helps countries that are having difficulty servicing their debt avoid default.

Foreign experience in managing external debt includes many successful examples that can serve as useful lessons for other countries.

For example, Argentina successfully implemented the restructuring method. In the early 2000s, Argentina faced a serious debt crisis. In 2001, the country defaulted on its foreign debt, which at that time amounted to about 100 billion US dollars. This was the largest default in history at that time, which led to a deep economic crisis and social instability.

In this regard, the following restructuring strategies were implemented:

- Argentina began negotiations with international creditors, including private investors and international financial institutions. The main goal was to reduce the debt burden and improve the terms of debt repayment.
- In 2005, Argentina offered creditors to exchange old bonds for new ones with longer maturities and reduced face value. This offer included writing off about 75% of the face value of the debt.
- In 2010, Argentina carried out a second stage of restructuring, offering similar terms to creditors who had not participated in the first swap. As a result, the total amount of restructured debt reached about 93% of the original amount.
- Argentina faces legal challenges from creditors who refused to participate in the restructuring (so-called "vulture funds"). These creditors have filed lawsuits in U.S. courts seeking full repayment of the debt.
- In 2014, the US Supreme Court ruled that Argentina must pay these creditors, leading to a new round of negotiations and a final settlement in 2016.

As a result of the strategy, Argentina managed to significantly reduce its debt burden and improve debt repayment terms.

A similar restructuring approach was taken by South Korea when it faced a severe financial crisis in 1997, caused by currency depreciation, declining employment, and massive corporate bankruptcies. The crisis exacerbated the country's external debt problems and required urgent measures to stabilize the economy. South Korea implemented a series of significant financial reforms to manage its external debt after the Asian financial crisis, which resulted in a lower debt burden and sustained economic growth in the following years.

South Korea's major reform efforts include:

- appealed to the International Monetary Fund (IMF) and received a financial aid package of about $58 billion. In exchange, the country pledged to carry out structural reforms aimed at stabilizing the economy and improving debt management.
- conducting a large-scale restructuring of the banking system, including the closure of insolvent banks, mergers and recapitalization of the remaining banks. This helped restore confidence in the financial system and improve its stability.
- the introduction of measures to improve corporate governance, including increasing transparency and accountability of companies. This included reforms in the area of accounting and reporting, as well as increased control over the activities of large corporations.
- liberalization of the economy, including the lifting of restrictions on foreign investment and improvement of business conditions. This helped attract foreign investment and stimulate economic growth.
- taking measures to reduce the budget deficit and improve tax administration. This included optimizing government spending and increasing the efficiency of the tax system.

2.**Refinancing**- this is the repayment of old debts by issuing a new type of loan (repayment of old debts by issuing new ones at an equivalent repayment amount, early replacement of one obligation with another by maturity date, or the sale of new bonds and the

repayment of bonds with an expired period using these funds).

An example of external debt refinancing is the policy pursued by a country such as Mexico. In the early 1980s, Mexico faced a serious debt crisis caused by a sharp increase in interest rates and a drop in oil prices. In 1982, the country declared its inability to service its external debt, which led to the need for large-scale refinancing.

Refinancing method included the following:

- Mexico began negotiations with international creditors, including commercial banks and international financial institutions. The main goal was to restructure the existing debt and attract new loans on more favorable terms.
- in 1989, the so-called "Brady Plan" was concluded, which provided for the exchange of old debt obligations for new bonds with longer maturity periods and a reduced interest rate.
- Under the Brady Plan, Mexico issued new bonds backed by government assets and the support of international financial institutions such as the IMF and the World Bank. These bonds had longer maturities and lower interest rates, allowing Mexico to reduce its debt burden and improve debt servicing conditions.
- Mexico has implemented strict fiscal discipline measures, including cutting public spending and improving tax administration.

The country has also carried out major economic reforms aimed at liberalizing the economy, attracting foreign investment and improving the business climate.

3.**Securitization**- re-registration of the state domestic debt into a debt instrument of the money market.

In this case, we can consider the securitization method carried out by Turkey. In the late 1990s, Turkey faced serious economic problems, including high inflation, large budget deficits, and high levels of public debt. These problems were aggravated by financial crises, which required urgent measures to stabilize the economy. In the early 2000s, Turkey carried out fiscal consolidation, including reducing the budget deficit and improving tax administration, and securitized debt. These measures helped reduce the level of public debt and strengthen the economy.

Key fiscal consolidation and securitization activities:

- Turkey has taken steps to reduce its budget deficit, including streamlining public spending and increasing tax revenues. This has included cutting subsidies and improving tax administration.
- Reforms of the tax system were carried out, aimed at expanding the tax base and increasing the efficiency of tax collection. New taxes were introduced and mechanisms for monitoring tax payments were improved.
- Turkey actively carried out the privatization of state-owned enterprises, which allowed it to attract additional funds to the budget and improve the efficiency of asset management.
- Measures were taken to improve public debt management, including restructuring of debt obligations and issuing new bonds on more favourable terms.
- The Turkish Central Bank pursued a tight monetary policy aimed at reducing inflation and stabilizing the exchange rate. This included raising interest rates and controlling the money supply.
- Turkey has issued bonds backed by revenues from government assets such as taxes and fees.
- These bonds were structured in such a way as to attract a wide range of investors, including international financial institutions and private investors.

4. **Conversion** is a reduction in interest rates on a loan or other methods of reducing the borrower’s expenses.

In the early 1990s, Poland faced serious economic difficulties, including a high level of external debt, which reached about 50% of GDP. Economic reforms initiated in 1989 required significant financial resources, which aggravated the debt burden.

Poland has successfully implemented the following key measures to restructure and convert its external debt, which has reduced the debt burden, stabilized the economy, attracted new investment and strengthened international confidence:

- held negotiations with the Paris Club of creditors, a group of government creditors, in 1991. As a result of the negotiations, an agreement was reached to write off 50% of the

debt and restructure the remainder over longer terms with lower interest rates.

- entered into an agreement with the London Club of Creditors, representing private creditors, in 1994. This agreement provided for a restructuring of commercial debts, including the exchange of some debt for bonds with longer maturities.
- carried out internal economic reforms aimed at liberalizing the economy, privatizing state enterprises and improving the investment climate.

5. **Consolidation** – is changing the term of existing loans.

Greece faced a serious debt crisis in the early 2010s. In 2010, the country declared its inability to service its external debt, which led to the need for a large-scale debt consolidation. The consolidation allowed Greece to significantly reduce its debt burden and improve debt repayment terms, led to economic stabilization, and increased confidence among international investors and creditors.

The following consolidation strategies were undertaken:

- Negotiations with creditors: Greece began negotiations with international creditors, including the European Union, the European Central Bank and the International Monetary Fund. The main goal was to write off part of the debt and improve the terms of its repayment. In 2012, an agreement was reached to write off about 50% of the nominal value of the debt, which amounted to about 100 billion euros.
- Debt restructuring: Greece restructured its remaining debt, extending maturities and lowering interest rates. This reduced the debt burden and improved debt servicing conditions. New bonds with longer maturities and lower interest rates were issued.
- Fiscal discipline and economic reforms: Greece has implemented strict fiscal discipline measures, including cutting public spending and improving tax administration. The country has also implemented sweeping economic reforms aimed at liberalizing the economy, improving the business climate, and attracting foreign investment.

6. **Unification of loans** is the consolidation of several loans into a single whole, i.e. previously issued bonds are exchanged for new ones.

7. Novation is an agreement between the borrower and the creditors to replace the obligations under the loan agreement. The main purpose of novation is to improve the debt servicing conditions for the debtor, which may include lower interest rates, longer repayment periods, or a reduction in the principal amount of the debt.

Russia faced a serious economic crisis in 1998, caused by falling oil prices, financial instability and significant foreign debt. In August 1998, Russia defaulted on its domestic debt and devalued the ruble, which led to the need to restructure its foreign debt.

The main innovation and unification activities were as follows:

- Russia began negotiations with international creditors, including the Paris Club (a group of official creditors) and the London Club (a group of commercial banks). The main goal was to reach debt restructuring agreements to ease the debt burden and improve debt servicing conditions. In August 1999, Russia reached an agreement with the Paris Club to restructure about $8 billion in debt. The terms included extending maturities and lowering interest rates, allowing Russia to reduce its annual debt payments.
- In February 2000, Russia reached an agreement with the London Club to restructure its debt in the amount of about $32 billion. Under this agreement, the old obligations were replaced by new Eurobonds with longer maturities and lower interest rates.
- As part of the innovation, Russia issued new Eurobonds, which replaced the old debt obligations. These new bonds had more favorable conditions for Russia, which allowed it to reduce the debt burden and improve the country's financial indicators.

As a result of the innovation, Russia was able to significantly reduce its debt burden, which allowed it to stabilize the economy and improve financial indicators.

8. Cancellation of public debt is when the state cancels all obligations upon change of power or bankruptcy.

Iraq is a shining example of a country that has effectively implemented the debt cancellation method after facing severe economic hardship and high levels of public debt due to wars and international sanctions.

In 2004, Iraq began negotiations with the Paris Club of creditors, which included 19 creditor countries. The main goal was to reach an agreement on a significant reduction in debt [3].

In November 2004, the Paris Club agreed to write off 80% of Iraq's debt, about 100 billion US dollars. The debt was written off in three stages: 30% immediately, 30% after the IMF conditions were met, and another 20% after the IMF program was completed. The remainder of the debt was restructured over longer terms with lower interest rates. Iraq also committed to economic reforms and improved public financial management.

The cancellation of a significant portion of the debt allowed Iraq to reduce its debt burden and improve its financial performance, and also helped attract foreign investment and restore the economy.

These examples show that successful external debt management requires a comprehensive approach, including debt restructuring, financial reforms, improved corporate governance and fiscal consolidation.

Research methodology.

During the study, methods of analysis, synthesis, comparative and statistical analysis, induction and deduction were used, and Microsoft Office software was used as tools.

Results.

Effective external debt management is assessed by a number of key indicators that help determine the sustainability and manageability of a country's debt obligations.

To assess the debt sustainability of a country, in world practice certain coefficients are used, indicators for classifying debtor countries from international institutions such as the IMF, IBRD and member countries of the Paris Club of creditors; generally accepted indicators for assessing the quality of debt from international rating agencies.

Indicators characterizing debt sustainability and its impact on the country's economy:

- public debt as a percentage of gross domestic product;
- debt per capita (characterizes the debt burden that falls on each citizen of the country);
- the ratio of budget deficit to GDP and others.

External debt indicators show different dynamics in developed countries and in emerging markets.

In this regard, we can examine in detail the statistics of external debt by foreign countries for the first quarter of 2024.

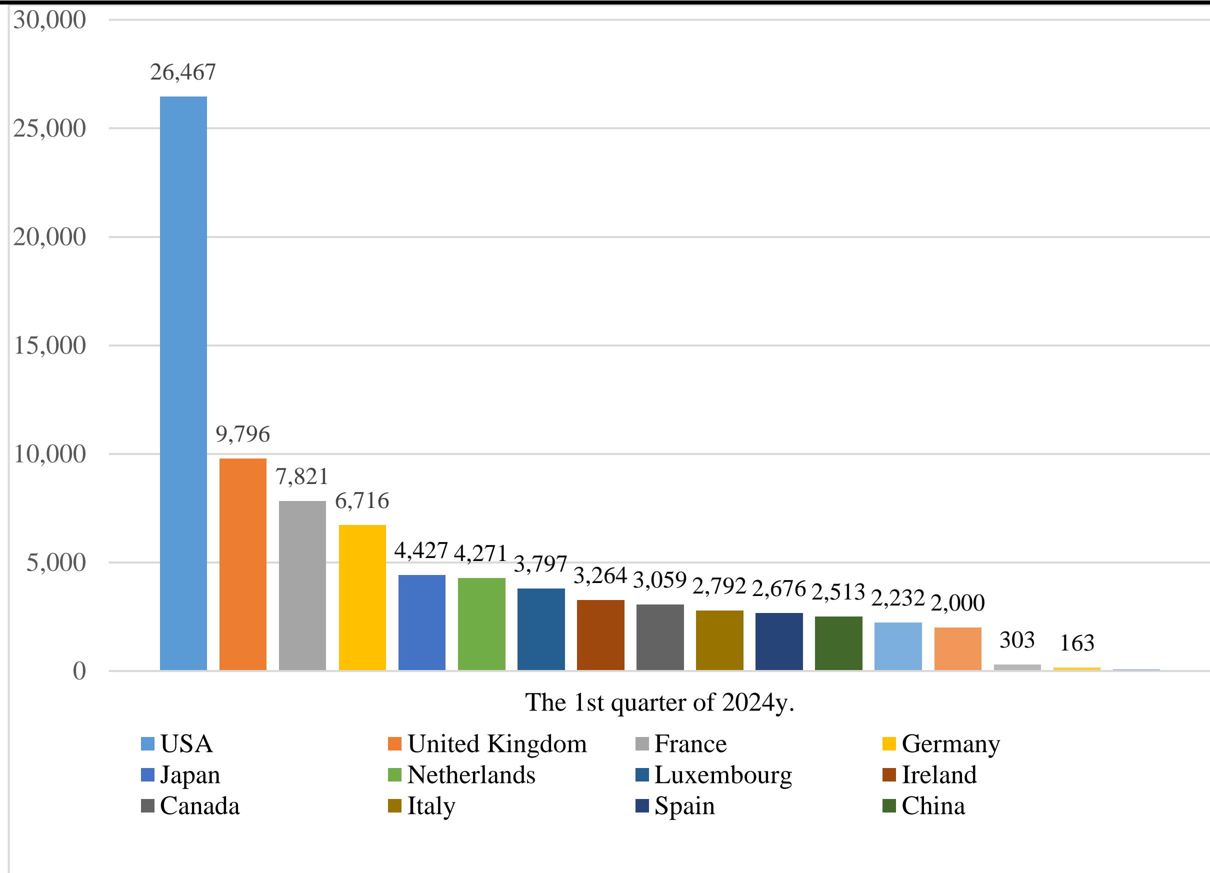

Figure 1. Rating of countries by external debt for the first quarter of 2024, in billions of dollars.
Source: Data from the sitehttps://svspb.net/danmark/vneshnij-dolg-stran.php[6].

When considering the ranking of countries in the world by the size of external debt for the first quarter of 2024, it is clear that the United States occupies the leading position with 26 467 billion US dollars.

The second place in the ranking of countries is occupied by Great Britain with a debt of 9 trillion 796 billion US dollars. It is followed by countries: France - 7 trillion 821 billion US dollars, Germany - 6 trillion 716 billion US dollars, Japan - 4 trillion 427 billion US dollars, the Netherlands - 4 trillion 271 billion US dollars and others. Uzbekistan, against the background of the huge size of the external debt, occupies an insignificant part - 61 billion US dollars.

Indicators characterizing debt sustainability and its impact on the country's economy can be seen in Table 1.

Table 1. External debt of countries of the world to GDP and per capita for the 1st quarter of 2024y.

Country	External debt, billion dollars	External debt to GDP (nominal) %	External debt per capita, USD
Luxembourg	3 797	4518,0	5 823 080
Mauritius	198	1595,5	156 823
Malta	222	1250,7	422 575
Cyprus	186	674,6	204 083
Ireland	3 264	594,4	635 914
Hong Kong	1 841	475,3	247 775

Singapore	2 000	447,4	378 008
Netherlands	4 271	418,8	241 345
Seychelles	6	297,2	63 250
United Kingdom	9 796	281,5	144 396
France	7 821	278,7	118 833
Switzerland	2 232	267,5	253 629
Belgium	1 576	264	134 410
Greece	595	262,7	56 150
Finland	676	238,3	121 962
Spain	2 676	188,3	55 985
Portugal	440	168,6	42 967
Austria	795	168,2	87 997
Sweden	1 072	163,9	99 094
Germany	6 716	163,0	80 573
Norway	746	153,4	136 132
Denmark	553	140,4	93 237
Italy	2 792	140,2	47 211
Canada	3 059	131,5	77 808
Slovakia	135	110,9	24 735
Japan	4 427	101,4	35 527
USA	26 467	101,1	79 266
Australia	1 588	88,8	60 409
Iceland	24	81,8	63 768
Uzbekistan	61	66,5	1 698
China	2 513	13,1	1 780
Palestine	2	9,6	339

According to the data in the table 1 the leading position among countries in terms of the ratio of external debt to GDP (nominal) is occupied by such countries as Luxembourg - 4518%, Mauritius – 1595,5%, Malta – 1250,7%, Cyprus – 674,6%, Ireland – 594,4%, Hong Kong – 475,3%, Singapore – 447,4%, the Netherlands – 418,8%, Seychelles – 297,2% and others.

Luxembourg has the highest external debt per capita at 5 823 080 US dollars. It is followed by Ireland at 635 914 US dollars, Malta at 422 575 US dollars, Singapore at 378 008 US dollars, the Netherlands at 241 345 US dollars, Cyprus at 204 083 US dollars, Switzerland at 253 629 US dollars, Mauritius at 156 823 US dollars, and Belgium at 134 410 US dollars.

China is a model example, with its external debt to GDP ratio of 13.1%.

According to the table data, the countries that are among the top ten countries in general in three positions (external debt, external debt to GDP, external debt per capita) are: Great Britain, France, Germany, the Netherlands, USA, Japan, Luxembourg, Ireland, Singapore, Spain, Switzerland.

Discussion:

Based on the above data, it can be noted that China does have a relatively low level of external debt compared to other major economies. The main reasons for the low debt are:

1. High savings rate. China has one of the highest savings rates in the world. This allows the country to finance its investment and

economic growth largely from domestic resources rather than borrowing from abroad.

2. Current account surplus. China has traditionally had a current account surplus, meaning that the country exports more goods and services than it imports. This leads to the accumulation of foreign exchange reserves that can be used to pay off foreign debt.

3. Capital controls. China strictly controls the movement of capital across its borders. This limits the scope for external borrowing and helps maintain low levels of external debt.

4. Government policy. The Chinese government pursues policies aimed at minimizing foreign debt and maintaining financial stability. This includes strict control over government borrowing and encouraging domestic investment.

5. Economic growth: China's rapid economic growth allows the country to generate sufficient revenue to service its debt obligations without the need for significant external borrowing.

Conclusions:

Effective management of external debt is a key element of economic policy, especially for developing countries such as Uzbekistan. External debt can be a useful tool for financing economic growth and development, but if mismanaged, it can lead to serious economic problems such as default and credit rating downgrades.

Taking into account the above, in order to effectively manage external debt, it is necessary to carry out the following measures:

- budgetary consolidation of the country's external debt. Strict budget rules and control over public spending help to avoid excessive accumulation of debt;
- limiting new borrowings and raising funds on more favorable terms;
- stimulating economic growth through investment in infrastructure, education and innovation;
- development of new industries and sectors of the economy, with the aim of increasing the level of GDP;
- transparent debt management and regular reporting increase confidence among creditors and investors.
- development of the domestic financial market and attraction of foreign direct investment reduce dependence on external borrowing;
- cooperation with international financial organizations such as the IMF and the World Bank provides financial support and advice on economic policy issues.

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