PUBLIC EXTERNAL DEBT AND MACROECONOMIC STABILITY IN UZBEKISTAN: A REVIEW AND DESCRIPTIVE ANALYSIS

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Abstract: This article examines the evolution of public external debt in the Republic of Uzbekistan from 2015 to 2024, analyzing its pivotal role in the country's transition from an autarkic, state-led model to an open market economy. The study posits that while the nominal stock of public debt surged following the 2017 exchange rate liberalization and subsequent investment boom, the debt-to-GDP ratio has stabilized within sustainable thresholds due to robust nominal GDP growth and prudent fiscal management (IMF, 2025). Through a descriptive analysis of the evolving institutional framework, the research highlights the significance of the 2023 Law on State Debt and the maintenance of substantial international reserves in mitigating solvency risks (Ministry of Justice, 2023). However, the analysis also identifies persistent structural vulnerabilities, specifically the high degree of foreign currency denomination and contingent liabilities arising from State-Owned Enterprises (SOEs). Ultimately, the research concludes that public debt served as a critical macroeconomic stabilizer during external shocks, positioning Uzbekistan for a phase of fiscal consolidation and deeper domestic market development.

Keywords: Public debt, Uzbekistan, GDP, World Bank, PPG, Inflation, Green Bonds, State-Owned Enterprises.

INTRODUCTION

The economic trajectory of the Republic of Uzbekistan over the decade spanning 2015 to 2024 represents a paradigmatic case of a transition economy navigating the complex shift from a closed, import-substituting model to an open, export-oriented system. Central to this transformation has been the strategic utilization of public external debt. Historically characterized by low external leverage and strict capital controls, Uzbekistan initiated a profound structural reform agenda in 2017 that fundamentally altered its relationship with international capital markets.

The subject of public debt in Uzbekistan is of particular academic and policy relevance due to the speed of its accumulation following the liberalization of the foreign exchange market and the unique "high reserves, moderate debt" profile the country has maintained. Unlike many developing economies that accumulate debt due to fiscal profligacy or terms-of-trade shocks, Uzbekistan’s debt trajectory was a deliberate policy choice driven by an "investment hunger" to modernize aging infrastructure and industrial capacity (Urmonov, 2019). The period under review captures three distinct phases: the pre-reform era of repressed financial engagement (2015–2016), the liberalization shock and subsequent investment boom (2017–2020), and the era of consolidation and resilience amidst global poly-crises (2021–2024).

This analysis argues that while the nominal stock of public external debt has increased significantly—driven initially by statistical revaluation following the 2017 devaluation and subsequently by investment drives—the debt burden remains within sustainable thresholds. This sustainability is underpinned by a robust institutional framework and substantial external buffers in the form of gold and foreign exchange reserves. However, the report also emphasizes that the high dollarization of the debt portfolio leaves the fiscal balance exposed to exchange rate shocks, necessitating continued development of the domestic securities market.

LITERATURE REVIEW

The relationship between public external debt and economic growth in Uzbekistan has become a focal point of academic inquiry following the liberalization reforms. The literature has evolved from general discussions of transition dynamics to rigorous empirical testing of debt thresholds and transmission channels.

Theoretical literature on transition economies typically fluctuates between the Keynesian view, where debt stimulates aggregate demand and funds critical infrastructure, and the Neoclassical view, where high debt crowds out private investment and equates to future taxes. In the specific context of Uzbekistan, scholars such as Urmonov (2019) have argued that in the initial phases of transition, external debt serves as a necessary substitute for limited domestic savings, which are essential for funding capital-intensive projects in energy, water supply, and transport infrastructure.

However, empirical findings regarding the impact of this debt on growth are mixed. Allakuliev (2022), investigating the 2010–2020 period, found a significant negative relationship between external debt and economic growth. His error correction model suggested that a 1% increase in external debt could lead to a 0.24% decrease in GDP growth, supporting the crowding-out hypothesis where debt service obligations divert resources from productive social investment. Conversely, Sanakulova and Jamolov (2023) argue that diversifying debt instruments is critical for financial security, suggesting that the impact depends heavily on the efficiency of the funded projects rather than the volume of debt alone. Ganiyev (2022) further nuances this by indicating that while short-term impacts of liquidity injections are positive, long-term impacts turn negative if funds are not channeled into high-return sectors.

Institutional Framework and Risk Management. A distinct strand of literature focuses on the institutional mechanisms of debt management. Abdurakhmonov and Akramov (2020) were among the first to flag the rapid accumulation of debt post-2016, warning that while the debt-to-GDP ratio appeared moderate, the structural reliance on foreign currency borrowing posed significant exchange rate risks. Ahmedov (2021) expanded on this by emphasizing the necessity of institutional reforms, specifically the creation of an independent Debt Management Office (DMO) and the enhancement of transparency to mitigate the risks associated with State-Owned Enterprises (SOEs). These scholars collectively argue that Uzbekistan has reached a maturity stage where the focus must shift from access to risk mitigation.

METHODOLOGY

Macroeconomic Context (2015-2024). To comprehensively analyze public debt dynamics, one must first situate these financial flows within the broader macroeconomic environment. The transition from a closed economic model to one integrated with global finance dictated the necessity and the capacity for external borrowing.

From Stagnation to Liberalization (2015-2017): Prior to the structural reforms of 2017, Uzbekistan's macroeconomic framework was defined by a highly centralized command-and-control system. During 2015 and 2016, the economy operated under a dual exchange rate regime and strict capital controls. In 2016, the total external debt stock was recorded at approximately $14.7 billion, with public debt constituting a mere 6.0% of GDP (World Bank, 2019). This low leverage was not an indicator of financial robustness but rather a symptom of financial repression. The pivotal moment was the unification of the exchange rate in September 2017. The government allowed the Uzbek soum (UZS) to depreciate by approximately 50% to align the official rate with the market rate. This devaluation had an immediate, mechanical impact on debt statistics: the local currency value of foreign-denominated debt nearly doubled, causing the debt-to-GDP ratio to spike from ~6% to ~19% overnight (IMF, 2018). This statistical adjustment revealed the true leverage of the sovereign, which had previously been understated by the overvalued official exchange rate.

Investment Boom and Crisis Resilience (2018-2024): Following liberalization, the government launched the "New Uzbekistan" development strategy, characterized by a massive public investment drive. Given the shallowness of the domestic capital market, external borrowing became the primary financing mechanism for upgrading energy generation and transportation networks. The global COVID-19 pandemic in 2020 necessitated a shift in borrowing focus from infrastructure to counter-cyclical budget support. Despite the global recession, Uzbekistan was one of the few economies to maintain positive growth in 2020 (1.6%). This resilience was purchased, in part, through increased external leverage, with total Public and Publicly Guaranteed (PPG) debt rising to 34% of GDP by the end of 2020 (IMF, 2024). From 2021 to 2024, the economy demonstrated further resilience to geopolitical shocks, specifically the war in Ukraine. Contrary to negative forecasts, Uzbekistan benefited from the relocation of capital and labor, with real GDP growing by over 6.0% annually in 2022, 2023, and 2024 (Central Bank of Uzbekistan, 2025). During this period, the government began to pivot toward fiscal consolidation, reducing the consolidated deficit to 3.2% of GDP in 2024 (IMF, 2025).

Figure 1: Selected Macroeconomic Indicators

Indicator	**2016**	**2020**	**2022**	**2023**	**2024**
Real GDP Growth (%)	5.9	1.6	6.0	6.3	6.5
Inflation (CPI, avg, %)	8.0	12.9	11.4	10.0	9.6
Current Account (% GDP)	0.8	-5.0	-3.5	-8.6	-5.0
Fiscal Balance (% GDP)	1.4	-3.4	-3.5	-4.9	-3.2
Total Ext. Debt ($ bn)	14.7	34.0	44.9	53.6	64.1

Sources: Central Bank of Uzbekistan (2025); IMF (2024); World Bank (2024).

Evolution of Public External Debt Stock: While nominal figures show a steep upward trajectory, debt-to-GDP ratios indicate stabilization, highlighting the importance of the denominator effect (GDP growth) in maintaining sustainability. Total external debt (public and private) expanded to $64.1 billion by 2024 (Central Bank of Uzbekistan, 2025). However, it is critical to focus on Public and Publicly Guaranteed (PPG) debt, which stabilized around 30–32% of GDP after a rapid rise between 2017 and 2020. This stabilization was achieved despite new borrowing, thanks to high nominal GDP growth driven by both real economic expansion and the GDP deflator (inflation).

Uzbekistan's creditor profile has diversified significantly:

Multilateral Creditors: Multilateral institutions remain the bedrock of Uzbekistan's external financing. As of end-2024, multilateral creditors held approximately 52% of total PPG debt.7 The Asian Development Bank (ADB) and the World Bank group are the largest individual creditors. These loans are typically characterized by long maturities and favorable interest rates, deployed primarily for large-scale infrastructure projects in agriculture, water management, and energy.

Bilateral Creditors: Bilateral debt accounts for roughly 26% of the PPG portfolio.7 The People's Republic of China (via China Eximbank and China Development Bank) and Japan (via JICA) are the dominant bilateral lenders.15 Financing from these sources is often tied to specific investment projects involving technology imports from the creditor nations, particularly in the energy and chemical sectors.

Commercial Creditors and Eurobonds: A defining feature of the 2019-2024 period was the emergence of commercial debt, primarily in the form of sovereign Eurobonds. Commercial debt grew from zero prior to 2019 to constitute roughly 13% of the total PPG debt by 2024.7 This shift signifies Uzbekistan's transition from a pure aid-recipient status to an emerging market issuer, capable of attracting private global capital.

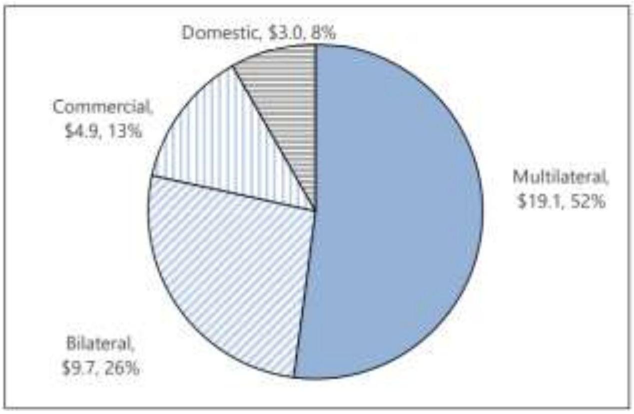

Figure 2. *Republic of Uzbekistan: 2025 Article IV Consultation-Press Release; and Staff Report; IMF Country Report No. 25/143; May 29, 2025*

A persistent structural vulnerability is the high degree of foreign currency denomination. As of late 2023, approximately 93.1% of public debt was denominated in foreign currencies, with the US Dollar accounting for ~60% (Ministry of Economy and Finance, 2023). This "Original Sin" exposes the sovereign balance sheet to exchange rate shocks; a depreciation of the soum immediately increases the debt service burden in local currency terms.

Sovereign Eurobond Issuances have been a critical tool for diversifying funding and establishing a benchmark yield curve.

Market Entry (2019): Uzbekistan debuted in international capital markets in February 2019 with a dual-tranche issuance totaling $1 billion. This established the initial credit spread and allowed state-owned banks to access foreign capital (Cbonds, 2025). $500 million, 5-year maturity, yield of 4.75%. $500 million, 10-year maturity, yield of 5.375%. This issuance established the initial credit spread for Uzbekistan and allowed state-owned banks and corporations to subsequently access international markets using the sovereign curve as a reference.

Local Currency Innovation (2020): In November 2020, Uzbekistan became the first CIS nation to issue a local currency (UZS) sovereign bond in international markets (a "Samurai" structure). This issuance of 2 trillion UZS (~$200 million) was a strategic move to transfer exchange rate risk to international investors (UNDP, 2022).

The ESG Pivot (2021–2024): Uzbekistan positioned itself as a regional leader in ESG financing by issuing the region's first Sustainable Development Goals (SDG) Bond in July 2021. This was followed by Green Bonds in October 2023 and May 2024. Proceeds from these bonds are strictly allocated to projects like water management, green transportation, and social infrastructure, audited by third parties like Sustainalytics (Ministry of Economy and Finance, 2022; UNDP, 2022).

Figure 3: Summary of Major Sovereign Eurobond Issuances (2019-2024)

Iss uance Date	**Cu rrency**	**Am ount (Millions)**	**Ten or (Years)**	**Yie ld/Coupo n (%)**	**Bo nd Type**
Feb 2019	US D	500	5	4.7 5%	Con ventional
Feb 2019	US D	500	10	5.3 75%	Con ventional
No v 2020	US D	555	10	3.7 0%	Con ventional

Nov 2020	UZS	2,000,000 (UZS)	3	14.50%	Local Currency
July 2021	USD/UZS	~870 (Equiv)	Mixed	Various	SDG Bond
Oct 2023	USD/UZS	~660 (Equiv)	Mixed	Various	Green Bond
May 2024	USD	500	7	6.95%	Conventional
May 2024	EUR	500	4	5.10%	Green Bond
May 2024	UZS	6,000,000 (UZS)	3	15.50%	Local Currency

Joint World Bank-IMF Debt Sustainability Analysis, accessed December 27, 2025

RESULTS

Institutional and Legal Framework: The rapid accumulation of debt required a parallel evolution in the institutional architecture of debt management. The Law on State Debt (ZRU-836), adopted on April 29, 2023, the Law of the Republic of Uzbekistan "On State Debt" (No. ZRU-836) codified fiscal rules that previously existed only in annual budget resolutions. Key provisions include:

The 60% Ceiling: A hard statutory cap on PPG debt at 60% of GDP.

The 50% Trigger Mechanism: A mandatory "brake" mechanism requiring the Cabinet of Ministers to submit proposals to Parliament if debt exceeds 50% of GDP.

Centralization: The Ministry of Economy and Finance is designated as the sole authorized body for state borrowing, reducing fragmentation and tightening control over contingent liabilities (Ministry of Justice, 2023).

According to the Joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries (LIC-DSF), Uzbekistan consistently maintains a Low risk of debt distress (IMF, 2025).

Solvency and Liquidity: The country's debt-carrying capacity is rated as Strong**,** largely due to its fortress balance sheet. International reserves covered more than 10 months of imports as of 2024/2025.

The Gold Hedge: Gold constitutes roughly 80% of international reserves. This acts as a natural hedge; during times of geopolitical stress when borrowing costs might rise, gold prices typically appreciate, strengthening Uzbekistan's balance sheet (S&P Global Ratings, 2025).

Stress Tests: The primary risks identified in stress tests are export shocks (given the reliance on commodities like gold and copper) and contingent liabilities from SOEs. The IMF models scenarios where the government assumes SOE debt equivalent to 2–5% of GDP, finding that debt remains sustainable even under such shocks (IMF, 2024).

CONCLUSION

Between 2015 and 2024, Uzbekistan successfully navigated the complex transition from a debt-averse, closed economy to a moderately indebted, open economy integrated into global capital markets. The accumulation of public external debt during this period was not a symptom of fiscal distress, but a deliberate instrument of statecraft used to finance the structural modernization of the economy. The descriptive analysis supports the conclusion that the rapid growth in debt stock was largely an arithmetic consequence of exchange rate unification and a strategic response to the country's "investment hunger." The resulting debt burden remains sustainable, anchored by the Law on State Debt, a credible Medium-Term Debt Management Strategy, and—crucially—a fortress balance sheet of international reserves heavily weighted in gold.

For macroeconomic stability, the evidence suggests that public debt has acted as a stabilizer. It enabled the government to maintain growth during the COVID-19 pandemic through counter-cyclical spending and allowed for the financing of critical infrastructure without depleting domestic savings. The high dollarization of the debt portfolio leaves the fiscal balance exposed to exchange rate shocks, and the large footprint of SOEs creates significant contingent liabilities.

As Uzbekistan moves beyond 2024, the focus of debt policy is shifting from *access* to *consolidation*. The challenge for the next decade will be to deepen domestic capital markets to reduce FX risk and to foster private sector growth that can replace state-led borrowing as the primary engine of development. The successful issuance of local currency bonds in international markets and the adherence to the 60% debt ceiling suggest that the authorities are well-positioned to manage these challenges, maintaining Uzbekistan's reputation as a prudent borrower in the emerging market landscape.

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