

**FISCAL STABILITY AND PUBLIC DEBT MANAGEMENT:
STRATEGIC DIRECTIONS FOR UZBEKISTAN FROM THE
EXPERIENCE OF ITALY AND JAPAN****FISKAL BARQARORLIK VA DAVLAT QARZINI BOSHQARISH:
ITALIYA VA YAPONIYA TAJRIBASI ASOSIDA O'ZBEKISTON
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ORCID: 0009-0008-6525-6249, G-mail: abrorabdurahimov15@gmail.com***Abstract
Annotatsiya**

Eng. - Maintaining stable dynamics of public debt in the context of global macroeconomic instability and geopolitical changes has become a priority for economic security. This article provides a comparative analysis of the experience of the world's two largest debt holders – Italy and Japan. Italy's institutional fiscal rules and Japan's domestic financing model are considered in the context of Uzbekistan's economy. The study econometrically assesses the impact of Uzbekistan's fiscal balance and inflation rate on the debt burden using the OLS model for 2011–2023. The results indicate the need to strengthen fiscal discipline and take advantage of domestic market opportunities.

Uzb. - Global makroiqtisodiy beqarorlik va geosiyosiy o'zgarishlar sharoitida davlat qarzining barqaror dinamikasini ta'minlash iqtisodiy xavfsizlikning ustuvor yo'nalishiga aylangan. Mazkur maqolada dunyoning eng yirik qarz egalari hisoblangan Italiya va Yaponiya tajribasi qiyosiy tahlil qilinadi. Italiya fiskal institutsional qoidalari hamda Yaponiyaning ichki moliyalashtirish modeli O'zbekiston iqtisodiyoti nuqtai nazaridan ko'rib chiqiladi. Tadqiqotda 2011–2023-yillar uchun O'zbekistonning fiskal balansi va inflyatsiya darajasining davlat qarzi yukiga ta'siri OLS modeli yordamida ekonometrik baholanadi. Natijalar fiskal intizomni kuchaytirish va ichki bozor imkoniyatlaridan samarali foydalanish zarurligini ko'rsatadi.

**Keywords:
Kalit so'zlar:**

❖ *fiscal stability, public debt, Italian experience, Japanese model, IMRAD, OLS, fiscal rules, PPP, contingent liabilities.*

❖ *fiskal barqarorlik, davlat qarzi, Italiya tajribasi, Yaponiya modeli, IMRAD, OLS, fiskal qoidalar, PPP, shartli majburiyatlar.*

Introduction.

The issue of public debt and fiscal stability is one of the most important and complex areas of modern economic policy. Acceleration of globalization processes in the world economy, integration of international financial markets and recurrence of economic crises have increased attention to the fiscal policy of states. In particular, the pandemic,

geo-political tensions and inflationary pressures have led to a public budget deficit and an increase in public debt, making the issue of ensuring fiscal stability an urgent problem. Therefore, wise management of public debt, controlling the impact of the debt burden on economic growth, and maintaining long-term macroeconomic balance remain among the priorities of today's economic policy. In

economic theory, there are different views on the issue of public debt. According to the Keynesian approach, it is necessary to stimulate gross demand by increasing government spending during periods of economic downturn and crisis, in which the national debt is seen as a means of supporting economic activity. According to this theory, investments made through borrowing will expand output, increase employment, and serve economic recovery. Public investment, especially in infrastructure, transport, energy, and social sectors, can be a driver of economic growth in the long run. However, representatives of the classical and neoclassical schools of economics argue that excessive public debt has negative consequences for the economy. They believe that the state's large-scale borrowing policy will lead to an increase in interest rates, creating a situation of "crowding-out" of private investment. As a result, private sector activity in the economy will decrease and the pace of long-term economic growth will slow down. In addition, an increase in the national debt will impose an additional tax burden on future generations and may limit fiscal independence. Therefore, when managing public debt, its size, composition, currency structure, and service costs play an important role.

The concept of fiscal stability refers to the ability of a state to fulfill its financial obligations over a long period of time without disturbing macroeconomic equilibrium. In a fiscally stable economy, the government budget deficit will be under control, the public debt will be kept at an acceptable level, and debt servicing costs will not pose a threat to economic security. On the contrary, fiscal imbalances can lead to a deterioration of public finances, increased inflation, depreciation of the national currency, and a deterioration of the investment environment. Therefore, the effectiveness of fiscal policy largely depends on the mechanisms of public debt management. Today, many developed and developing

countries face the challenge of maintaining fiscal stability in the context of high public debt. In particular, Italy and Japan are among the countries with the highest levels of public debt. Italy has long been plagued by a large debt burden due to high budget deficits and sluggish economic growth. Fiscal constraints and fiscal discipline requirements in the euro area have complicated debt management for the country. Nevertheless, Italy is trying to maintain financial stability through public debt refinancing and fiscal reforms.

Japan, on the other hand, is one of the countries with the highest public debt ratio in the world, but it maintains fiscal stability due to a developed domestic financial market, the bulk of debt is formed in the national currency, and a high level of savings of the population. The Japanese experience shows that the safety of public debt depends not only on its size, but also on the institutional capacity of the economy, monetary policy and the stability of the financial system. The size of public debt is also growing significantly, as the economy of Uzbekistan has entered the stage of large-scale economic reforms and infrastructure modernization in recent years. In particular, external debt is actively attracted to finance energy, transport, industrial and social infrastructure projects. This continues to serve as an important factor to accelerate economic growth and improve the investment climate. At the same time, an increase in public debt could exacerbate fiscal risks, increase dependence on external debt, and adversely affect budget stability. The study of the experience of Italy and Japan has important scientific and practical value for Uzbekistan. The mechanisms of public debt management of these countries, methods of ensuring fiscal discipline and strategies for reducing economic risks can be useful for Uzbekistan in the development of effective approaches. In particular, the analysis of international experience on the efficient use of debt funds, setting the optimal debt limits,

improving fiscal rules and increasing the transparency of public finances is relevant.

Literature Review.

OECD economists Randall S. Jones and Satoshi Urasawa emphasize that Japan's rapidly increasing public debt poses significant risks to long-term economic stability. They argue that restoring fiscal sustainability requires strict control over government expenditures, gradual increases in consumption taxes, and the development of a credible medium-term fiscal framework [1]. According to their analysis, debt sustainability depends not only on its size but also on the institutional credibility of fiscal policy. Japan's experience demonstrates the importance of maintaining fiscal discipline and ensuring policy consistency over time.

IMF researchers Jean-Marc Fournier, Takuma Hisanaga, and Anh Nguyen analyze Japan's fiscal stance using a model-based approach and highlight that prolonged accommodative fiscal policies have significantly contributed to the accumulation of public debt. They argue that while short-term fiscal support may stimulate economic growth, it must be accompanied by a gradual and well-planned fiscal consolidation strategy in the medium term. Their study underlines that debt sustainability is determined by the interaction between economic growth, interest rates, and fiscal balances [2]. Therefore, prudent fiscal management is essential to prevent debt from becoming unsustainable.

IMF scholars Dennis Botman, Papa N'Diaye, and Hali Edison examine fiscal consolidation strategies in Japan and conclude that increasing consumption taxes alongside rationalizing government expenditures represents one of the most effective approaches to reducing public debt. They stress that achieving a primary budget balance alone is insufficient; instead, governments must ensure long-term control over debt dynamics. Furthermore, they highlight that addressing

demographic challenges, such as population aging, through forward-looking fiscal planning can mitigate future fiscal pressures [3]. Their findings reinforce the importance of strategic and proactive fiscal policy design.

Yvan Guillemette and Jan Stráský from the OECD analyze Japan's complex debt dynamics and argue that a combination of fiscal consolidation, structural reforms, and moderate inflation is necessary to reduce the debt burden effectively. They emphasize that fiscal discipline alone cannot deliver sustainable outcomes without reforms that enhance economic growth. Their work also highlights that public debt is influenced not only by fiscal policy but also by demographic trends and institutional factors [4]. This broader perspective underscores the multidimensional nature of debt sustainability.

Alfred Kammer, Director of the IMF's European Department, highlights Italy's experience by noting that adherence to fiscal rules within the European Union framework has contributed to a "virtuous cycle" of debt stabilization. According to him, exceeding fiscal targets can reduce borrowing costs, boost investor confidence, and support economic growth. At the same time, he stresses that structural reforms remain essential for ensuring long-term fiscal sustainability [5]. Italy's case illustrates how credible fiscal frameworks can positively influence market perceptions and macroeconomic stability.

Research Methodology.

In this article, comparative and econometric analysis methods are used to assess the effectiveness of fiscal stability and public debt management. The study studies the experience of Italy and Japan, on which important conclusions for Uzbekistan were developed. The basis for econometric analysis is the macroeconomic indicators of Uzbekistan for 2011–2023. Data from the databases of the Ministry of Economy and Finance of the Republic of Uzbekistan, the Central Bank, the

Statistics Agency and the International Monetary Fund of the Republic of Uzbekistan. In the analysis, the share of public debt in GDP, budget deficit, inflation and GDP growth rates were selected as the main variables. The study used a regression model based on the Simple Least Squares Method (OLS).

$$DEBT_GDPT = \beta_0 + \beta_1 FISCAL_BALt + \beta_2 INFt + \beta_3 GDP_GROWTHt + \epsilon$$

The reliability of the model was evaluated using the Darbin-Watson test and p-value indicators. R^2 ,

Analysis and Discussion of Results.

During the study, the fiscal management system of Italy and Japan was comparatively analyzed, their main approaches to public debt management were studied. The results showed that while the Italian model is based on fiscal discipline and institutional control, the Japanese model provides stability through domestic financing opportunities.

Table 1

Comparison of Italian and Japanese fiscal models*

Bullet	Italy	Japan
Public Debt Levels	High	Extreme
Basic approach	Fiscal rules and control	Domestic financing
Fiskal nazorat organi	Independent Fiscal Council (UPB)	The Central Bank and the Financial System
Source of debt	External and domestic investors	Mostly domestic investors
Currency	Euro	Iyen
Basic predominance	Byudjet intizomi	Low interest rates
The main danger	Low economic growth	Aging Demographics

* Compiled independently by the editor.

According to the analysis, fiscal regulations in Italy serve to limit uncontrolled increases in public debt. In Japan, on the other hand, external debt risk remains low because most of the debt is financed through the domestic financial market. In the econometric analysis for Uzbekistan, fiscal balance, inflation

and economic growth indicators were selected as the main factors influencing public debt.

$$Debt_Ratio = \beta_0 + \beta_1(Fiscal_Balance) + \beta_2(Inflation) + \beta_3(GDP_Growth) + \epsilon$$

The results of the model showed that the bulk of the dynamics of public debt can be explained through selected factors.

Table 2

Econometric model results (OLS)*

Variable	Coefficient	Direction of influence
Fiscal balance	-3.37	Negative
Inflation	+1.76	Positive
YaIM o'sishi	-0.94	Negative
R^2	0.84	High Annotation Level

*Compiled independently by the editor based on the results of the software.

According to the results, the negative value of the fiscal balance ratio means that the public debt will increase rapidly when budget discipline is violated. The positive output of the inflation coefficient is explained by the fact that

a significant part of the external debt in Uzbekistan is formed in foreign currency. That is, inflation and devaluation increase borrowing costs.

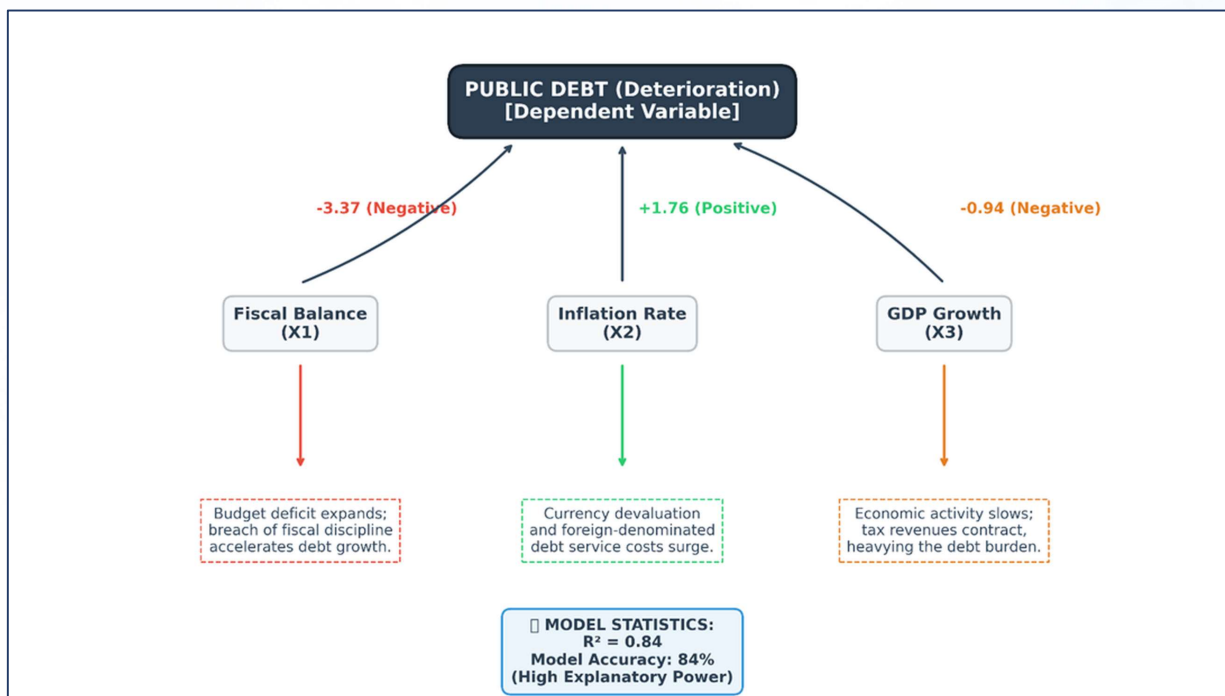


Figure 1. Econometric model of factors influencing public debt dynamics¹

The results of the econometric model (OLS) show that changes in the size of public debt in Uzbekistan are closely related to macroeconomic stability and fiscal discipline:

1. Fiscal balance (-3.37): The strongest influencing factor on public debt. The negative value of the coefficient means that the need for additional borrowing to pay off the public debt will form 3.37 times faster as budget discipline breaks and the deficit increases.

2. Inflation (+1.76): Has a positive effect mechanism. Due to the fact that a significant part of Uzbekistan’s external debt is formed in foreign currency (US dollars, euros, etc.), domestic inflation and devaluation of the national currency increase the cost of debt

repayment and servicing it in foreign currency by 1.76 units.

3. GDP growth (-0.94): There is an inverse relationship between economic growth and public debt. Real GDP growth boosts economic activity, increases tax revenues, and naturally lowers the country’s total debt burden by 0.94 units.

4. Coefficient of determination (R² = 0.84): The level of explanation of the model is very high (84%). This confirms that 84% of changes in the dynamics of the country’s public debt are fully justified by these three factors (fiscal balance, inflation, and GDP), and that the model is scientifically reliable.

Table 3

Key strategic areas for Uzbekistan*

Strategic directions	Expectation
Strengthening fiscal regulations	Increase budget discipline
Establishment of an independent Fiscal Council	Strengthen control and transparency
Contingent Liability Monitoring	Fiscal risk reduction
Development of domestic bond market	Reduction of dependence on external debt

*Compiled independently by the editor.

¹Compiled independently by the editor.

It is important for Uzbekistan to strengthen fiscal discipline, develop the domestic financial market and improve strategies for effective public debt management.

Conclusion and Recommendations.

The results of comparative analysis and econometric modeling showed that the issue of ensuring fiscal stability is directly related not only to the volume of public debt, but also to institutional mechanisms of its management, debt composition and sources of financing. In the course of the study, on the basis of the experience of Italy and Japan, the most important aspects of effective public debt management were analyzed and practical conclusions for Uzbekistan were formed. According to the study, fiscal discipline is one of the most important factors in ensuring the sustainability of public debt. The results of the OLS regression model, compiled for Uzbekistan, showed that as the budget deficit increased, the public debt would increase rapidly. In particular, the negative (-3.37) value of the fiscal balance ratio confirms that maintaining budget discipline is crucial in limiting the growth of public debt. This indicates the need for effective planning of public expenditure and keeping the budget deficit at an acceptable level.

The Italian experience has demonstrated the importance of institutional control mechanisms in fiscal policy. Independent fiscal boards, strict fiscal rules, and constitutional budget constraints continue to serve as an effective tool in preventing uncontrolled excess of the national debt. This approach reduces the negative impact of short-term decisions arising from political interests on public finances and increases the transparency of fiscal policy.

And Japan's model has shown that high levels of public debt do not always mean the risk of an economic crisis or default. A key feature of the Japanese experience is that most of the debt is financed by domestic investors

and the debt is formed in the national currency. This will protect the country from external financial pressures and currency risks. Therefore, the security of public debt depends not only on its amount, but also on the composition of the debt and the level of development of the financial market. The results of the econometric analysis also confirmed that inflation has a significant impact on public debt. Positive (+1.76) value of the inflation coefficient is explained by the fact that most of Uzbekistan's external debt is formed in foreign currency. That is, the depreciation of the national currency and the increase in inflation will increase the cost of servicing debt, increasing fiscal pressures. In general, the results of the study showed the need to improve the public debt management system, strengthen fiscal discipline and develop domestic financial markets in order to strengthen fiscal stability in Uzbekistan.

Strategic proposals: Based on the results of the research and the experience of Italy and Japan, the following strategic proposals have been developed to improve the fiscal policy of the Republic of Uzbekistan. First, on the basis of the Italian experience, it is desirable to establish an independent "Fiscal Council" in Uzbekistan. This body functions under the Parliament or the Accounts Chamber and is responsible for independent analysis of the government's macroeconomic forecasts, budget parameters and public debt dynamics. Such a system will increase the transparency of public finances while strengthening trust in the eyes of international investors and rating agencies. Second, it is important to optimize the currency composition of the public debt. The Japanese experience shows that a high share of domestic debt in the national currency reduces external financial risks. Therefore, it is necessary to develop the government securities market in Uzbekistan, attract free funds of the population to domestic bonds, and expand the participation of insurance companies and pension funds. Third, there is a need to

strengthen the system for monitoring implicit fiscal risks associated with public-private partnership (PPP) projects and state guarantees. Accounting for all contingent liabilities on a single ledger basis and integrating them into the public debt monitoring system will serve to reduce fiscal risks. At the same time, it is desirable to introduce a mechanism for the formation of special reserve funds for unforeseen expenses.

Fourth, there is a need to strengthen coordination between inflationary targeting policy and fiscal policy. Due to the fact that the results of the study show a negative impact of inflation on public debt, it is important to

establish an effective coordination mechanism between the Central Bank of Uzbekistan and the Ministry of Economy and Finance. Ensuring price stability should be seen as one of the factors mitigating the burden of public debt. Fifth, to improve the efficiency of public spending, it is necessary to widely introduce the system of "performance-based budgeting". Setting clear results and performance indicators for each state expenditure, assessing the impact of funds on economic growth will increase the efficiency of the use of budget funds. This, in turn, serves to strengthen fiscal stability in the long run.

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