

**ANALYSIS OF THE USE OF FINANCIAL CONTROL METHODS IN THE
REGULATION OF PUBLIC EXTERNAL DEBT****Sanakulova Barnogul Rizakulovna**Doctor of Economic Science, Professor,
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Abstract. This study examines methods of financial control in the regulation of public external debt and the potential for applying the concept of due diligence within the public debt management system. The relevance of this topic stems from the need to enhance the efficiency of external debt utilization, reduce debt risks, and ensure the stability of public financial policy. The foreign experience of developed and developing countries is analyzed, and the main instruments of financial control and their characteristics are identified. Particular attention is paid to due diligence as a comprehensive mechanism for evaluating debt decisions, including risk analysis, legal expertise, and monitoring the effective use of borrowed funds. It is argued that the implementation of this approach will contribute to increasing the transparency of borrowing operations and strengthening the country's debt sustainability. Conclusions are drawn regarding the advisability of integrating risk-oriented mechanisms into the public external debt management system.

Keywords: *public external debt, financial control, due diligence, debt policy, debt stability, public debt management, debt risks, borrowing.*

Introduction.

In the context of strengthening international financial interdependence and the growth of public debt on the global front, the problem of increasing the effectiveness of public external debt regulation is of particular importance. The stability of public debt policy is largely determined not only by the volume and composition of borrowed funds, but also by the quality of the applied methods of financial control, ensuring the legality, transparency, and economic validity of debt transactions. Unlike traditional budgetary control, these methods cover the entire life cycle of public debt, from borrowing decision-making to monitoring the provision of services and payment of obligations. The relevance of applying these methods lies in the fact

that the state forms long-term fiscal obligations related to the currency of external debt, interest, refinancing, and institutional risks. In the absence of effective financial control, external debts can turn from a tool of economic development into a source of macroeconomic instability and debt crises. International experience of recent decades clearly shows that even at a moderate level of debt, weak control mechanisms can lead to a sharp deterioration in debt stability.

Literature review. Emre Balibek's article "Medium-Term Debt Management Strategy"¹ analyzes the formation of a medium-term debt management strategy, taking into account the ratio of value and risks, and pays special attention to currency and interest rate risks. Currie E, Dethier J, Togo E. in their research "Institutional Arrangements for Public Debt Management"² examined institutional models of public debt management and the distribution of functions between government bodies. Vasquez et al. in their article "The Legal Foundations of Public Debt Transparency"³ analyzed the legal mechanisms for ensuring public debt transparency, including data disclosure and regulatory issues. Buchheit and Gulati in their article "Responsible Sovereign Lending and Borrowing"⁴ examined the principles of responsible government borrowing and the need to assess the validity of debt decisions.

In the manual "Revised Guidelines for Public Debt Management" by IMF and World Bank experts, the main principles of public debt management are considered, including issues of minimizing borrowing costs at a controlled risk level. The authors focus on transparency, institutional distribution of functions, and financial risk management. The World Bank's "Debt Management Performance Assessment Methodology" presents a system of indicators for assessing the effectiveness of public debt management. Such aspects as internal control, audit, policy coordination, and debt reporting were considered.

Methodology. The methodological basis of the research consists of induction, deduction, analysis, synthesis, and dialectical logic. In the study, the method of analysis and comparison was used. In this case, methods of comparative analysis were used in scientific observation. In the research process, the scientific works of domestic and foreign authors,

¹ Balibek E., Haque T., Rivetti D., Tamene M. *Medium-Term Debt Management Strategy*. — IMF Technical Notes and Manuals, No. 2019/002. — Washington, DC: International Monetary Fund, 2019.

² Currie E., Dethier J.-J., Togo E. *Institutional Arrangements for Public Debt Management*. — World Bank Policy Research Working Paper. — Washington, DC: World Bank, 2003.

³ Vasquez K., Ashcroft A., Alex-Okoh K., Gullo A., Kroytor O., Liu Y., Pineda M., Snipeliski R. *The Legal Foundations of Public Debt Transparency: Aligning the Law with Good Practices*. — IMF Working Paper No. 24/29. — Washington, DC: International Monetary Fund, 2024.

⁴ Buchheit L. C., Gulati G. M. *Responsible Sovereign Lending and Borrowing*. — UNCTAD Discussion Paper No. 198. — Geneva: United Nations Conference on Trade and Development, 2010.

information from the official websites of ministries and departments of foreign countries, regulatory legal acts of the Republic of Uzbekistan, and electronic resources were also studied. **Analysis of the results.** In this regard, preventive forms of financial control are becoming increasingly widespread in international practice of managing public external debt, aimed not at post-factual identification of emerging problems, but at their prevention at the planning and debt decision-making stages. Such tools include the "due diligence" mechanism, debt sustainability analysis, assessment of fiscal and contingent risks, as well as special forms of control, including "forensic audit." It should be noted that the set and depth of application of these mechanisms differ significantly depending on the level of economic development of the country, the maturity of the institutional environment, and the structure of public debt. In countries with emerging markets and transitional economies, including the Republic of Uzbekistan, financial control in the field of external debt, as a rule, combines elements of international standards with national characteristics of budgetary and fiscal management. At the same time, developed economies such as the USA and Japan, as well as large state creditors such as China, use more formalized and technologically advanced control models based on stable institutional mechanisms and long-term strategic planning. Different countries use different mechanisms of financial control in managing external debt. Below are the main mechanisms used, taking into account the entire structure of external debt, using the example of developed (USA, China, Japan) and developing (Georgia, Kazakhstan, Greece) countries

Practice of external debt control mechanisms in foreign countries ⁵

Country	Methods of financial control
USA	Regular auctions with a pre-announced U.S. Treasury emission schedule (transparency, debt price minimization); legal "debt threshold" (the legal threshold of public debt approved by Congress); Control by the Accounts Chamber (ACC) and the Congressional Budget Committee ⁶ .
China	Centralized system of borrowing quotas (limits) for central and local budgets - in 2015 a system of upper and lower debt limits was introduced ("debt quotas" were allocated); Starting from 2025, a new department of the Ministry of Finance will be created to manage public debt (setting limits, controlling debts). ⁷

⁵ Source: Author's development

⁶ <https://www.congress.gov/crs-product/R40767>

⁷ <https://voxchina.org/show-3-404.html>

Japan	Parliamentary sanction of borrowing - annual approval of the maximum amount of debt within the budget; legal formalization of borrowing issues in the budget process (state treasury securities, bonds); priority of internal financing. ⁸
Georgia	Strategy for optimizing the structure of public debt: targeted ratio of external and internal debt on average 65/35; equal financing of infrastructure projects with internal and external debt (maintaining access to various markets); issuance of new long-term bonds (3-7 years) and repurchase/swap operations to extend the average duration. ⁹
Kazakhstan	Strict fiscal rules in the Budget Code (restriction of budget expenditure growth, limit of early spending of National Fund resources); introduction of a long-term “anchor” in the form of a limited level of public debt. Coordination of the Treasury and the National Bank: joint issuance of short-term securities and bonds for liquidity management. ¹⁰
Greece	Strict adherence to European fiscal rules (budget stability, deficit moratorium) under EU/IMF control; The Public Debt Management Agency (PDMA) conducts a flexible borrowing program - loan auctions and syndicated issues - considering market conditions. Formation of high monetary reserves in the budget and early repayment of expensive debts (for example, early purchase of EFSF loans). ¹¹

In developed countries, the elements of “due diligence” are manifested through formalized procedures for evaluating debt decisions. In the USA, “due diligence” is carried out through a multi-level debt audit system, which includes analysis of market conditions before the placement of government securities, parliamentary control over the threshold level of public debt, and mandatory audit of debt transactions by the Accounts Chamber. These mechanisms allow the state to assess the cost of borrowing, possible budget risks, and the long-term consequences of debt policy in advance. In Japan, due diligence is manifested through a strict procedure for parliamentary approval of borrowing and detailed forecasting of debt stability. In this case, the main element is the preliminary financial and economic examination of the feasibility of new loans.

⁸ Fujitani Takeshi, Legal Framework for Government Debt Management Policy in Japan., Policy Research Institute, Ministry of Finance, Japan, Public Policy Review, Vol.18, No.1, June 2022

⁹ Georgia 2025 article IV consultation—press release; and staff report., IMF Country Report No. 25/216

¹⁰ Kazakhstan: Staff Concluding Statement for the 2025 Article IV Mission November 21, 2025

¹¹ Public Debt Management Agency Sovereign Borrowing Outlook 2023, Annual Bulletin

Chinese practice demonstrates an administrative model of “due diligence”, where preliminary verification of debt transactions is carried out through centralized borrowing quotas and control over debt obligations of regional authorities. Here, due diligence is primarily aimed at preventing excessive debt accumulation and ensuring the alignment of debt policy with national strategic priorities. However, the limited transparency of individual debt instruments shows that the effectiveness of “due diligence” directly depends on the completeness of information disclosure and the independence of regulatory institutions.

In developing countries, due diligence is more often used in the form of strategic analysis of debt risks and assessment of the stability of the debt structure. For example, in Georgia, due diligence procedures are carried out by developing medium-term public debt management strategies, which include an analysis of currency, interest, and refinancing risks before attracting external debt. When forming the budget, Kazakhstan uses a system of fiscal rules and due diligence through the assessment of debt parameters, which allows for the early detection of potential threats to debt stability. In Greece, due diligence takes the form of enhanced external monitoring by international financial institutions, which comprehensively assess debt obligations, budget policy, and macroeconomic risks before providing financial assistance.

Thus, due diligence can be considered as the methodological basis of modern mechanisms for financial control of public external debt. It combines the processes of risk assessment, analysis of borrowing effectiveness, monitoring the use of borrowed funds, and independent audit of borrowing operations. International experience shows that countries that cover all stages of the loan cycle, from borrowing planning to monitoring their use and assessing debt stability, and are implemented comprehensively, show the highest efficiency.

In the system of regulating public external debt, the “due diligence” mechanism represents a comprehensive procedure for assessing the feasibility, risks, and effectiveness of loan operations at all stages of the loan cycle. Unlike traditional financial control, which is mainly aimed at subsequent verification of the legality of expenses, due diligence has a preventive character and is aimed at preventing financial, institutional, and macroeconomic risks.

Structurally, due diligence includes several interconnected elements. The first element serves as an analytical assessment of the need to attract borrowed funds, which provides for an analysis of budget needs, alternative sources of financing, and the stability of the state's debt. The second element relates to the assessment of debt transaction risks, including currency, interest, refinancing, and institutional risks. The third component is the examination of the

conditions for the use of borrowed funds, which provides for the verification of the effectiveness of investment projects and the targeted use of attracted resources. The final element of due diligence is the monitoring and audit of debt transactions, which ensures control over the fulfillment of debt obligations and an assessment of their impact on macroeconomic stability. The application of the “due diligence” mechanism in public debt management implies the integration of these procedures into budget planning, public debt management strategy, and the public financial control system. International experience shows that the use of a comprehensive “due diligence” approach contributes to increasing the transparency of debt policy, reducing debt risks, and forming a sustainable public debt management system.

Conceptual model of the application of “due diligence” in the public external debt management system of the Republic of Uzbekistan ¹²

FORMATION OF THE NEED FOR EXTERNAL DEBT

	Strategic budget planning	
Analysis of budget deficit	Assessment of state investment projects	Analysis of alternative sources of financing
Evaluation indicators:	Evaluation indicators:	Evaluation indicators:
- the level of budget deficit	- economic efficiency of projects	- internal debt
- public debt forecast	- social effect	- public-private partnership
- debt stability	- payback period	- budget reserves

“DUE DILIGENCE” ДАСТЛАБКИ БОСҚИЧИ

Financial analysis of loan terms	Macroeconomic analysis	Legal analysis
Evaluation indicators:	Evaluation indicators:	Evaluation indicators:
- currency risks	- impact on inflation	- compliance with the Budget Code of the Republic of Uzbekistan
- interest rate risks	- impact on the balance of payments	- compliance with international standards
- refinancing risk	- external debt stability	
- loan servicing cost		

¹² Source: Author's development

- terms of loan agreements

MAKING A DECISION ON STATE BORROWING

(Cabinet of Ministers, Oliy Majlis, Ministry of Economy and Finance of the Republic of Uzbekistan)

IMPLEMENTATION OF THE PROGRAM OF LOANING AND USE OF FUNDS

Control over the targeted
use of funds

Evaluation indicators:

- compliance with the project documentation
- timely development of funds

Monitoring the effectiveness
of investment projects

Evaluation indicators:

- achievement of project targets
- impact on economic growth

Debt portfolio
management

Evaluation indicators:

- composition of external debt
- average payment term
- currency composition of the debt
- loan servicing cost

THE NEXT STAGE OF "DUE DILIGENCE"

Government audit
(Chamber of Accounts of the Republic of
Uzbekistan, internal audit)

Evaluation indicators:

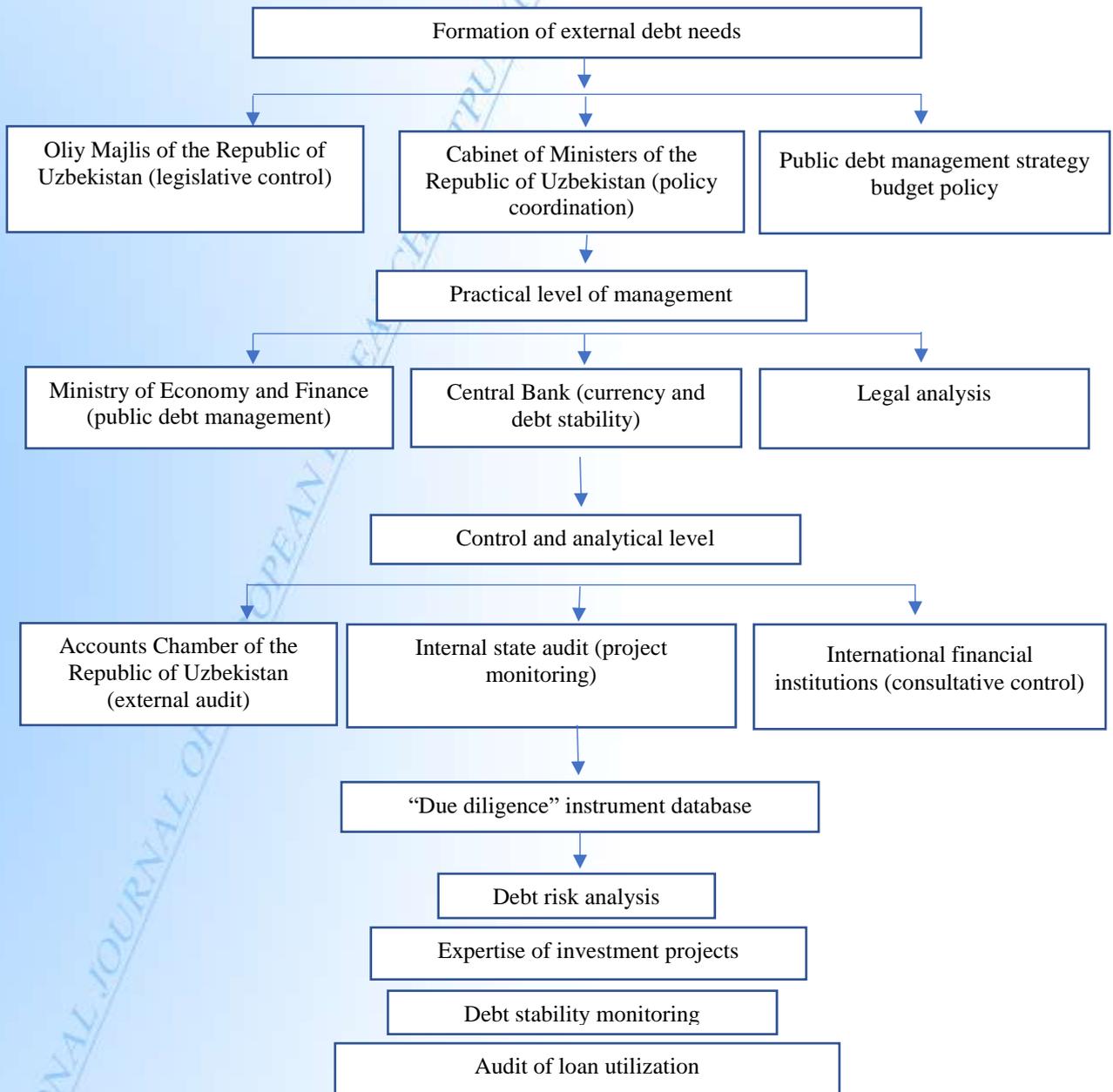
- efficiency of fund utilization
- compliance with strategic goals
- detection of financial violations

Loan strategy adjustment
Public debt management

Evaluation indicators:

- debt stability level
- dynamics of public debt
- Efficiency

Institutional model for the introduction of “due diligence” into the public external debt management system of the Republic of Uzbekistan ¹³



¹³ Source: Author’s development

The proposed institutional mechanism reflects the proper distribution of inspection functions among the main state bodies of the Republic of Uzbekistan. The model demonstrates a multi-level system for controlling loan operations, providing strategic planning of borrowing, operational management of the loan portfolio, and independent audit of the effectiveness of the use of borrowed funds.

Indicators for assessing the effectiveness of applying “due diligence” in the management of public external debt ¹⁴

Assessment directions	Main indicators	Importance of debt stability
Financial sustainability	The ratio of public debt to GDP	Shows the debt burden on the economy
	Share of external debt in the total debt	Evaluates currency risks
	Loan servicing cost	Describes budget burden
Risk-oriented analysis	Share of variable-rate debt	Evaluates interest rate risks
	Average debt repayment period	Describes the risk of refinancing
	Currency structure debt	Determines sensitivity to currency fluctuations
Efficiency of loan utilization	Share of completed investment projects	Evaluates the effectiveness of borrowing
	Economic effect of investment projects	Shows the impact of debt on economic growth
Transparency of debt policy	Level of debt disclosure	Increases investor confidence
	Results of the state audit	Allows the identification of violations in the use of funds.

The use of the system of indicators allows for an objective assessment of the effectiveness of the introduction of due diligence procedures in the management of public external debt. The application of comprehensive indicators of financial stability, debt risks, and the effectiveness

¹⁴ Source: Author's development

of the use of borrowed funds contributes to the formation of a risk-oriented debt management model.

Proposals and conclusions. The research results show that improving the public external debt management system requires a transition from controlling borrowing volumes to a comprehensive assessment of the effectiveness of their use. International practice shows that the stability of debt policy is ensured through systematic analysis of investment projects, transparency of funds spending, and regular audit of debt obligations. For Uzbekistan, the introduction of the due diligence concept as a tool for preliminary and subsequent assessment of external debt is of particular relevance. The application of this approach will allow strengthening the validity of decisions on attracting international financial resources, improving the quality of investment project selection, and reducing the risk of inefficient use of borrowed funds.

Integration of due diligence procedures into the national public debt management system can contribute to the formation of a multi-level control mechanism, including financial, legal, and macroeconomic expertise of debt projects. This will create conditions for increasing the transparency of budget expenditures, strengthening the institutional responsibility of government bodies, and increasing the effectiveness of public investments.

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