

Article

# Problems of Managing Gold and Foreign Exchange Reserves and External Debt

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**Abstract:** This article focuses on the management of gold and foreign exchange reserves and external debt. Factors that significantly influence the significance and development of this issue are identified. Specific proposals are provided for reducing the impact of macroeconomic indicators on foreign exchange reserves.

**Keywords:** debt obligations, reform, experiments, supervision, control, domestic debt, interest, deficit.

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## 1. Introduction

The management of gold and foreign exchange reserves is currently of considerable interest. In this context, I would like to echo the critical attitude of some economists toward the prevailing notion that "the quality of national money depends on its foreign exchange backing and is assessed by comparing the amount of foreign exchange reserves with the size of domestic money circulation" In reality, this "quality" is determined primarily by the state of the economy, which ensures the market is saturated with goods and services, regardless of which component of the monetary base—external or domestic—is used to issue the money [1, 2].

## 2. Literature Review

An analysis of the balance of payments logically leads to an examination of the problem of external debt. Using various publications—both official and expert—as well as his own estimates, S.M. Borisov arrives at figures according to which Russia's total public external debt increased from \$96.6 billion at the end of 1991 to \$166.5 billion at the end of 1998, including new Russian debt—from \$2.8 billion (at the end of 1992) to \$65.3 billion. External debt grew during these years, largely as a result of borrowing operations by the new Russian authorities, who sought to attract all possible forms of capital both through official channels (loans from Western government agencies, loans from commercial banks under government guarantees, assistance from international monetary and financial organizations) and on the private capital market (Eurobonds, GKO-OFZ, etc.) [3, 4].

Citing global experience, it should be noted that in a number of places, the permissibility of temporarily raising funds from abroad to address budget and balance of payments issues is acknowledged. However, this is only on the condition that foreign borrowings are used rationally and effectively—to the benefit of the national economy. This is precisely the condition that was not met.

"It can be stated directly and quite definitely," he writes, "that from the standpoint of the country's true interests, these funds were spent most ineptly [5, 6]."

Issues of external debt management and relations with Western creditors within the Paris and London Clubs, related to restructuring, i.e., the official renegotiation of debt obligations, should be carefully considered. In this regard, a fundamental decision to cease recourse to external financing, at least in amounts exceeding debt repayments, is welcome, which means embarking on a targeted reduction of the national external debt [7, 8].

### 3. Methodology

Therefore, a number of literary sources are devoted to analyzing the domestic economy. This sphere is treated as the real foundation upon which monetary relations rest and which determines their state. Here's how it reads: "It can now be stated with certainty that the reform efforts have successfully accomplished the first part of the task: the destruction of the financial and economic foundations and socioeconomic base of the countries. As for the constructive side of the reforms, there is an obvious failure. The individuals and structures that led and carried out the dismantling of administrative-command relations have proven powerless to create in its place an adequate environment for normal economic activity and a dignified existence for the majority of the population. "

Two primary causes are cited as the main ones that triggered the negative processes in the economy: first, the extremely negative impact of the chaos that arose due to the breakdown of economic ties between the republics; second, the implementation of reforms "in the mode of a spontaneous, uncontrolled experiment based on the principle of 'first we need to liberalize and privatize everything, and the market will do the rest'" and the lack of effective government oversight of the liberalization and privatization processes. The latter is a natural consequence of the fact that "dubious monetarist prescriptions from Western experiments have often been used, and unfortunately continue to be used, as guiding principles. These prescriptions are also those of officials from the International Monetary Fund "

### 4. Results and Discussions

In support of these harsh judgments, specific statistical indicators are given: the volume of GDP in 1998 was only 58% of the 1990 level, industrial production even less - 46%, which means that the country rolled back almost 13 years; instead of the promised structural restructuring of industry, there was a further "weighting" of its structure; inflation reached unprecedented proportions (if we take the price level in 1990 as 1, then in 1999 the GDP deflator reached 11670, the consumer price index - 15806); there was an unprecedented reduction in capital investments, as a result of which their volume in 1998 was only 22% of the 1990 level; a financial crisis developed, as a result of which the consolidated budget deficit increased in 1998 to 15% of its revenue side against 6% in 1990; hence the increase in the state domestic debt, which increased from 14.3 billion denominated rubles at the end of 1993 to 520.9 billion rubles as of mid-1998 (a nominal increase of 37 times over 5 years), and in relation to GDP the debt burden increased more than twofold – from 8.3% to 19.3% [9, 10].

The categorical and harsh assessments given to macroeconomic policy can be attributed to a certain extent to the fact that we expressed our opinion under the impression of the events associated with the acute crisis of 1998. Although it can be noted that economic growth resumed in 1999 (an increase in GDP by 3.2%, industrial production by 8% and investment in fixed capital by 4.5%) [11]. The results of 2000 turned out to be even more encouraging: GDP grew by 8.3%. However, apparently, even in the current conditions the following warning remains valid: "it is by no means obvious that these positive shifts will be consolidated and continue further, since they are in no way based on an improvement in the fundamental factors of national production, but are a temporary result of a successful combination of anti-crisis measures, devaluation and a high situation on the world energy markets" [12, 13].

We do not limit ourselves to criticizing a number of measures taken that have an anti-crisis nature, but we propose our own detailed program of practical measures aimed at creating a currency system “that would meet the criteria and serve the needs of a modern market economy, but it must be managed by the state so that it is under its control and can act not only in private but also in national state interests.”

Our position is quite clear. Our monetary policy priorities are:

de-dollarization;

real convertibility of the national currency with tightening state control over capital movements [14];

use of national currency in foreign economic settlements.

The mechanism for implementing such priority tasks:

100% sale of foreign currency proceeds;

fixed exchange rate of the national currency;

“Clear monitoring of transactions related to current payment transactions, and the transfer of the rest to the area of administrative regulation.”

Let's add to the above the author's proposals aimed at institutional improvement of the currency system. Chief among these is the creation of a limited number (up to two or three dozen) of special "currency banks" that would act as monopolistic participants in trading on currency exchanges and shape the interbank currency market [15].

## 5. Conclusion

According to our assertion, "the currency mechanism... in our conditions has become an instrument for subordinating the foreign economic sphere to the narrow commercial interests of non-state structures engaged in the uncontrolled squandering of natural resources..." This obviously leads to the conclusion that the direction of the national economy's evolution, including the currency system, should be determined (and must be determined) not so much by comparing scientific arguments as by combating crisis phenomena that represent opposing interests, emerging as a result of this struggle. Anti-crisis financial policy measures must be applied within the structures of financial institutions regulated by government authorities.

We are confident that even those who dislike the methodological principles of the anti-crisis measures will not deny that it represents truly fundamental scientific research. This work contains a large volume of largely unique information, can propose and advance innovative approaches to further reform of the currency system in Uzbekistan's context, and provides abundant food for thought. It will be of interest and useful to a wide range of people – from academics at economics universities to government officials responsible for the country's anti-crisis policy.

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