



THE RELATIONSHIP BETWEEN EXTERNAL DEBT AND ECONOMIC GROWTH IN POST- SOVIET ECONOMIES

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Abstract

This article examines the complex relationship between external debt and economic growth in post-Soviet economies. By combining theoretical perspectives with empirical analysis, it evaluates how debt accumulation affects macroeconomic performance in these transitioning nations. Utilizing panel data from international financial institutions, the research applies econometric models to quantify the impact of external debt on GDP growth. The findings offer critical insights for policymakers, highlighting the need to strike a balance between debt sustainability and economic development, ensuring long-term financial stability and growth in the region.

Keywords: External debt, economic growth, post-soviet economies, debt sustainability, GDP growth, debt-to-GDP ratio, debt management, transition economies, financial stability, foreign borrowing.

INTRODUCTION

The dissolution of the Soviet Union in 1991 marked the emergence of fifteen newly independent states, each undergoing significant economic restructuring. These countries include Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Russia, Tajikistan,



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Turkmenistan, Ukraine, and Uzbekistan. The transition from centrally planned economies to market-driven systems introduced a range of macroeconomic challenges, with external debt becoming a crucial factor in economic stability and growth.

Gross Domestic Product (GDP) serves as a key measure of economic performance, reflecting the total monetary value of goods and services produced within a country. While external debt can be a valuable tool for financing infrastructure and development projects, excessive borrowing can lead to fiscal instability and unsustainable debt burdens. Therefore, understanding the relationship between external debt and GDP growth in post-Soviet economies is essential for formulating effective fiscal and monetary policies that promote long-term economic resilience.

Post-Soviet economies have exhibited varying growth trajectories influenced by factors such as resource endowments, institutional reforms, and external financial assistance. While some nations, like the Baltic states, have integrated successfully into the European Union with stable economic progress, others, such as Ukraine and Belarus, have faced significant economic and political challenges. This study aims to analyze the extent to which external debt has contributed to or hindered economic growth across these diverse economies.

The object of this research is the economic growth of post-Soviet economies, with a specific focus on the role of external debt in influencing macroeconomic stability and development. The subject of the study is the quantitative relationship between external debt and GDP growth, examining how different levels of debt impact economic performance, fiscal policy, and financial sustainability in these nations. This study aims to analyze the impact of external debt on economic growth in post-Soviet economies by examining key macroeconomic indicators and fiscal policies. The primary objectives of this research are as follows: to assess the relationship between external debt and GDP growth in post-Soviet economies, identifying whether borrowing contributes to or hinders economic development; to examine variations in debt sustainability among resource-rich and resource-poor post-Soviet countries, evaluating the role of natural resource endowments in managing external debt; to analyze debt accumulation trends from 2019 to 2023, identifying patterns and key factors



influencing rising or declining debt-to-GDP ratios; to provide policy recommendations based on empirical findings, ensuring sustainable debt management strategies that promote long-term economic stability in transition economies.

This study hypothesizes that external debt exerts a dual influence on economic growth in post-Soviet economies. While moderate debt levels can stimulate investment and infrastructure development, excessive borrowing is likely to result in negative economic consequences, including higher debt servicing costs, constrained fiscal space, and economic stagnation. Furthermore, the study posits that resource-rich countries may demonstrate greater resilience to external debt pressures due to natural resource revenues, whereas resource-poor economies are more vulnerable to debt distress and financial instability. To validate these hypotheses, this research conducts an empirical analysis aimed at providing evidence-based insights for policy recommendations on sustainable debt management and economic growth strategies within post-Soviet economies.

LITERATURE REVIEW

The relationship between external debt and economic growth has been widely examined in economic research, with various theories and empirical studies contributing to our understanding of this dynamic. Krugman (1988) [1] and Sachs (1989) [2] introduced the debt overhang hypothesis, suggesting that when a country's debt levels become excessive, the anticipated future tax burden discourages investment, slowing down economic growth. Reinhart and Rogoff (2010) [3] supported this view with empirical evidence showing that high debt-to-GDP ratios tend to constrain growth due to financial instability and declining investor confidence.

The crowding-out effect is another critical concept in debt literature. Elmendorf and Mankiw (1999) [4] argue that increased government borrowing from external sources leads to higher interest rates, which in turn reduces private sector investment. This view is contrasted by Barro's (1974) [5] Ricardian equivalence theory, which asserts that rational economic agents anticipate higher future taxes resulting from government borrowing and adjust their savings accordingly, potentially neutralizing the negative effects of external debt.



Several empirical studies have attempted to determine the threshold at which external debt becomes detrimental to economic growth. Clements, Bhattacharya, and Nguyen (2003) [6] found that for low-income countries, debt exceeding 40-50% of GDP hinders growth by constraining fiscal space and discouraging productive investment. Similarly, Pattillo, Poirson, and Ricci (2002) [7] used panel data analysis to show that as debt levels increase beyond sustainable limits, the negative impact on growth intensifies, further limiting economic expansion. In the context of post-Soviet economies, Egert (2012) [8] and Balazs and Iwasaki (2020) [9] provide valuable insights into the challenges these countries face in managing external debt. Weak institutional structures, corruption, and volatile capital flows amplify the adverse effects of high debt levels, resulting in prolonged economic stagnation and financial instability. These studies highlight the need for robust policy frameworks that balance borrowing with sustainable economic strategies.

RESEARCH METHODOLOGY

This study adopts a panel data econometric approach to evaluate the impact of external debt on GDP growth in post-Soviet economies. To account for country-specific variations, both fixed-effects and random-effects models are employed, ensuring a robust estimation of the relationship between external debt and economic growth. The study also differentiates between resource-rich and resource-poor economies, assessing whether natural resource dependence influences debt sustainability. By analyzing these variations, the findings contribute to empirical evidence on sustainable debt management policies, offering valuable insights for transition economies navigating external borrowing and economic growth.

ANALYSIS AND RESULTS

A thorough examination of external debt and its impact on economic growth is essential for understanding the financial stability of post-Soviet economies. This section assesses how external debt levels have influenced GDP growth by analyzing debt-to-GDP ratios, economic performance trends, and regression results. The findings highlight significant variations across countries, revealing



distinct debt management strategies and their economic consequences. While some nations have successfully utilized external borrowing to drive sustainable growth, others face mounting financial risks due to excessive debt burdens. By comparing these economies, this analysis provides critical insights into debt sustainability, fiscal policy effectiveness, and economic resilience in the region.

Table 1. GDP trends in post-Soviet economies from 2019 to 2023 (million dollars)¹

Countries	2019	2020	2021	2022	2023
Armenia	13,619	12,642	13,879	19,514	24,086
Azerbaijan	48,174	42,693	54,825	78,807	72,356
Belarus	64,410	61,372	69,674	73,775	71,857
Estonia	31,874	31,821	37,205	38,376	41,291
Kazakhstan	181,667	171,082	197,112	225,496	262,641
Kyrgyz Republic	9,371	8,270	9,249	12,135	13,988
Latvia	33,100	33,380	38,185	38,019	42,248
Lithuania	55,122	57,412	67,037	71,034	79,790
Moldova	11,737	11,531	13,692	14,510	16,539
Russian Federation	1,693,115	1,493,076	1,843,392	2,266,029	2,021,421
Tajikistan	8,3001	8,134	8,938	10,714	12,061
Turkmenistan	45,233	45,818	50,007	58,972	60,628
Ukraine	153,883	156,618	199,766	161,990	178,757
Uzbekistan	67,294	66,443	77,340	90,096	101,592
Georgia	17,638	16,0101	18,853	24,986	30,778

Examining GDP data across post-Soviet economies from 2019 to 2023 reveals key economic trends. Russia remains the dominant economy, with GDP reaching \$2.02 trillion in 2023, despite fluctuations due to economic sanctions and external shocks. Kazakhstan and Uzbekistan have demonstrated consistent growth reflecting successful economic policies and increasing foreign investment. Uzbekistan, in particular, saw its GDP grow from \$67.3 billion in 2019 to \$101.6 billion in 2023, making it one of the fastest-growing economies

¹ Compiled by the author based on data from the International Monetary Fund (IMF), World Bank, European Bank for Reconstruction and Development (EBRD), and national statistical agencies.



in the region. This growth is driven by economic liberalization, foreign direct investment, and large-scale infrastructure projects.

**Table 2. External debt trends in post-Soviet economies from 2019 to 2023
(million dollars)²**

Countries	2019	2020	2021	2022	2023
Armenia	11,884.5	13,061.8	14,039.6	15,931.2	15,838.8
Azerbaijan	16,539.1	16,478.2	15,648.0	15,277.1	14,532.7
Belarus	40,734.1	41,792.4	41,653.7	39,858.9	36,704.5
Estonia	2,657	5,814	6,550	6,414.3	7,970.3
Kazakhstan	159,281.6	161,508.8	161,343.8	160,974.3	163,154.5
Kyrgyz Republic	8,454.3	8,675.6	9,060.6	9,745.8	10,115.1
Latvia	40,164	41,257	43,091	42,383	42,606
Lithuania	19,620	26,319	29,038	27,055	29,806
Moldova	7,299.0	7,915.6	9,034.5	9,723.4	10,638.7
Russian Federation	481,5	461,2	489,2	381,8	326,6
Tajikistan	6,632.8	6,903.7	6,590.6	6,723.5	6,872.8
Turkmenistan	6,650.4	5,771.0	4,986.4	4,645.4	3,917.7
Ukraine	125,724.7	133,405.5	136,907.6	143,317.9	176,645.5
Uzbekistan	22,957.6	33,711.4	40,606.4	48,993.0	59,184.4
Georgia	18,757.5	20,089.6	22,053.9	23,982.3	24,467.5

A comparative look at external debt trends indicates diverging borrowing strategies. Russia has significantly reduced its external debt from \$481.5 billion in 2019 to \$326.6 billion in 2023, indicating a shift towards economic self-reliance. On the other hand, Ukraine's external debt has surged, reaching \$176.6 billion in 2023, suggesting increasing dependence on international financing. Uzbekistan's debt has more than doubled, from \$22.9 billion in 2019 to \$59.1 billion in 2023, reflecting aggressive borrowing to finance modernization efforts and infrastructure expansion.

² Compiled by the author based on data from the International Monetary Fund (IMF), World Bank, European Bank for Reconstruction and Development (EBRD), and national statistical agencies.



Table 3. Debt-to-GDP ratio for post-Soviet economies from 2019 to 2023 %³

Countries	2019	2020	2021	2022	2023
Armenia	87.3	103.3	101.2	81.6	65.6
Azerbaijan	34.3	38.6	28.6	19.4	20.1
Belarus	63.2	68.1	59.8	54	51.1
Estonia	8.3	18.3	17.6	16.7	19.3
Kazakhstan	87.7	94.4	81.9	71.4	62.1
Kyrgyz Republic	90.2	104.9	98	80.3	72.3
Latvia	121.3	123.6	112.8	111.5	100.8
Lithuania	35.6	45.8	43.3	38.1	37.4
Moldova	62.2	68.6	66	67	64.3
Russian Federation	28.4	30.1	26.5	16.8	16.2
Tajikistan	79.9	84.9	73.7	62.7	57
Turkmenistan	14.7	12.6	10	7.9	6.7
Ukraine	81.7	85.2	68.5	88.5	98.8
Uzbekistan	34.1	50.7	52.5	54.4	58.3
Georgia	106.3	125.5	117	96	79.5

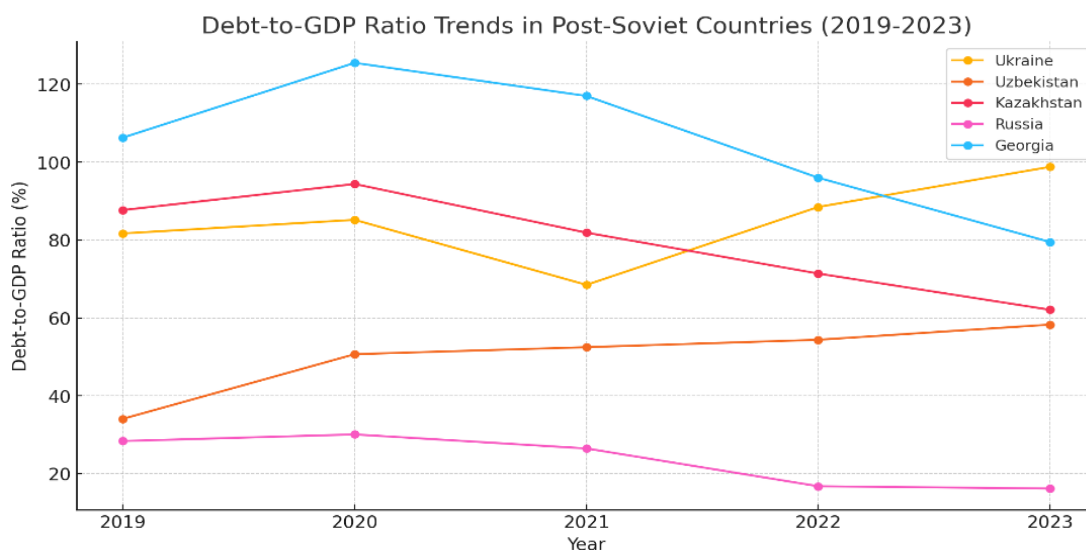


Figure 1. Line graph of Debt-to-GDP ratio trends in post-Soviet economies (2019-2023)⁴

³ Compiled by the author based on data from the International Monetary Fund (IMF), World Bank, European Bank for Reconstruction and Development (EBRD), and national statistical agencies.

⁴ Line graph created by the author based on Table 3.



The analysis of Debt-to-GDP Ratio Trends in Post-Soviet Countries (2019-2023) reveals substantial differences in debt management and economic resilience across the region. Ukraine has experienced a continuous rise in its debt-to-GDP ratio, reaching 98.8% in 2023, indicating a heavy reliance on external borrowing. This raises concerns about its financial stability and vulnerability to external shocks. Similarly, Georgia's debt-to-GDP ratio, which peaked at 125.5% in 2020, has gradually declined to 79.5% in 2023. While this signals some fiscal consolidation, it still remains at a high-risk level.

Uzbekistan has exhibited a steady increase in debt-to-GDP ratio, rising from 34.1% in 2019 to 58.3% in 2023. This suggests that external borrowing has been used strategically to finance infrastructure and economic reforms. While the current debt level remains moderate, careful management is required to ensure borrowed funds contribute effectively to long-term economic growth. In contrast, Kazakhstan has successfully reduced its debt burden, with its debt-to-GDP ratio falling from 87.7% in 2019 to 62.1% in 2023. This demonstrates strong fiscal policies and economic resilience. Meanwhile, Russia has continuously lowered its debt-to-GDP ratio, dropping from 28.4% in 2019 to 16.2% in 2023. This showcases effective debt management and reduced dependency on external borrowing, securing long-term financial stability.

The comparative analysis highlights that while some post-Soviet countries have effectively leveraged external debt for economic growth, others are facing growing debt burdens that pose risks to financial stability. Countries with lower debt ratios, such as Russia and Azerbaijan, are in a stronger fiscal position with reduced exposure to external risks. Conversely, economies with rising debt levels, such as Ukraine and Georgia, must prioritize structural reforms and fiscal discipline to mitigate potential economic crises. For external debt to remain a tool for sustainable growth rather than a liability, countries must ensure that borrowing is allocated efficiently toward economic development and long-term productivity.

CONCLUSION AND SUGGESTIONS

This study provides an in-depth analysis of the impact of external debt on economic growth in post-Soviet economies. The findings indicate that while



external debt can serve as a valuable tool for economic development, excessive reliance on borrowing poses risks to financial stability. Countries like Uzbekistan and Kazakhstan have leveraged debt for infrastructure and investment-driven growth, while Ukraine and Georgia face challenges due to high debt burdens. Russia, Azerbaijan, and Turkmenistan have maintained relatively low debt-to-GDP ratios, ensuring fiscal stability. The analysis reveals that economies with rapidly rising debt levels must focus on sustainable borrowing strategies to avoid long-term fiscal distress. Countries with high debt-to-GDP ratios need to prioritize effective debt management policies, improve institutional frameworks, and ensure that borrowed funds are allocated towards productive sectors.

Based on the analysis of Debt-to-GDP ratios and economic performance, different post-Soviet countries require tailored debt management strategies to ensure sustainable economic growth.

For high-debt countries (Ukraine, Georgia, Kyrgyzstan):

- implement strict debt control measures to prevent excessive borrowing;
- diversify revenue sources and invest in export-oriented industries to generate foreign currency reserves;
- seek IMF-backed fiscal reforms to ensure debt sustainability.

For moderate-debt countries (Uzbekistan, Kazakhstan, Armenia, Moldova):

- ensure external borrowing is used efficiently for long-term productivity gains;
- improve fiscal transparency and debt monitoring mechanisms;
- encourage foreign direct investment (FDI) as an alternative to external borrowing.

For low-debt countries (Russia, Azerbaijan, Turkmenistan, Estonia):

- maintain a cautious borrowing approach and continue diversifying economic sectors;
- utilize budget surpluses to finance growth rather than relying on foreign debt;
- invest in sustainable infrastructure and innovation-driven sectors to maintain long-term economic resilience.

As post-Soviet economies navigate an increasingly complex global financial landscape, the strategic management of external debt will remain a critical



determinant of long-term economic stability and growth. While external borrowing can serve as a catalyst for investment, innovation, and structural development, the risks associated with excessive debt accumulation necessitate a prudent and forward-looking approach. To enhance debt sustainability, governments must prioritize robust fiscal frameworks, ensuring that borrowing is directed toward high-yield investments rather than short-term consumption. The integration of advanced debt monitoring systems, leveraging digital finance and AI-driven risk assessment tools, can provide greater transparency and facilitate informed policymaking.

Overall, post-Soviet economies must strike a balance between debt accumulation and economic growth by implementing fiscal discipline, structural reforms, and debt sustainability strategies. Ensuring that debt is utilized for productive investments while maintaining financial stability will be critical to fostering long-term economic resilience in the region.

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