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THE ROLE OF STATE GUARANTEES IN ENHANCING INVESTMENT VIABILITY AND FINANCIAL STABILITY: INTERNATIONAL EVIDENCE AND POLICY IMPLICATIONS

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Annotation: This article analyzes the role of state guarantees in enhancing the financial viability, risk mitigation, and sustainability of investment projects, with a particular focus on large-scale infrastructure development, public-private partnerships (PPPs), and small and medium-sized enterprise (SME) financing. Drawing on international empirical evidence, the paper examines how sovereign guarantees, political risk insurance, and public credit guarantees influence investment behavior, financing costs, and project success rates. The article also integrates recent macroeconomic and investment statistics from Uzbekistan to provide contextual insights into the effectiveness of state guarantees in emerging economies. The study demonstrates that well-designed guarantee mechanisms can significantly stimulate private investment, improve access to finance, and support sustainable economic growth, while highlighting potential risks such as moral hazard, fiscal pressure, and market distortions.

Keywords: state guarantees, investment risk, public-private partnerships, infrastructure finance, credit guarantees, Uzbekistan, financial stability

In the context of increasing global economic uncertainty, state guarantees have emerged as a critical policy instrument for stimulating investment and enhancing financial stability. Large-scale infrastructure projects, climate finance initiatives, and PPP arrangements often require substantial upfront capital and involve long payback periods, making them inherently risky for private investors. In such environments, government-backed guarantees serve as a mechanism for risk-sharing, enabling private sector participation in projects that would otherwise remain unfinanced.

Over the past two decades, the use of state guarantees has expanded significantly, particularly in developing and transition economies. According to the World Bank, the global volume of infrastructure projects supported by public guarantees exceeded USD 1.2 trillion between 2010 and 2023, with emerging markets accounting for nearly 55 percent of this amount. This trend reflects the growing recognition of guarantees as a tool for crowding in private capital, reducing financing costs, and stabilizing investment flows.

Uzbekistan provides a compelling case study in this regard. Since 2017, the country has implemented large-scale economic reforms aimed at liberalizing markets, improving the investment climate, and modernizing infrastructure. As a result, foreign direct investment (FDI) inflows increased from USD 1.6 billion in 2017 to USD 11.1 billion in 2023. State guarantees and government-backed financing mechanisms have played a central role in this transformation, particularly in energy, transport, and urban infrastructure sectors.

State guarantees represent formal or informal commitments by public authorities to assume part or all of the financial risks associated with investment projects. These guarantees typically take three principal forms: sovereign guarantees, political risk insurance, and public credit guarantees.

Sovereign guarantees involve direct commitments by central governments to cover debt service obligations in the event of project default. Political risk insurance protects investors against losses arising from non-commercial risks, such as expropriation, regulatory changes, or political violence. Public credit guarantees, in contrast, are designed primarily to support SME financing by partially covering loan defaults, thereby reducing banks' exposure to credit risk.

From a theoretical perspective, guarantees operate through risk reallocation and information signaling channels. By transferring part of the project risk to the state, guarantees reduce the

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perceived probability of default, lowering the required risk premium demanded by investors and lenders. Simultaneously, the involvement of the government sends a positive signal regarding project quality and political commitment, further enhancing investor confidence.

Empirical studies consistently demonstrate that state guarantees significantly reduce financing costs and expand access to capital. Cross-country analyses show that infrastructure projects supported by sovereign guarantees benefit from interest rate reductions ranging between 150 and 300 basis points. In China, government guarantees have been found to increase corporate investment by 8–12 percent under conditions of high policy uncertainty. Similar effects have been documented in African economies, where political risk insurance has increased private participation in infrastructure finance by more than 40 percent.

The SME sector also benefits substantially from public credit guarantee schemes. In Italy, firms receiving government-backed guarantees recorded a 15 percent increase in loan volumes and a 7 percent rise in labor productivity. In China, credit guarantees have raised R&D expenditure by nearly 8 percent and fixed asset investment by over 6 percent. These effects highlight the broader developmental role of guarantees in fostering innovation and technological upgrading.

Uzbekistan has undergone significant economic restructuring since 2017, focusing on market liberalization, industrial diversification, and infrastructure modernization. Gross domestic product (GDP) growth averaged 5.6 percent annually between 2018 and 2023, while gross fixed capital formation rose from 23.5 percent of GDP to 33.1 percent.

Table 1. Key Investment Indicators in Uzbekistan (2017–2023)

Indicator	**2017**	**2019**	**2021**	**2023**
FDI inflows (USD bn)	1.6	4.2	9.8	11.1
Public investment (% of GDP)	7.8	10.5	12.7	14.3
Infrastructure investment (USD bn)	3.4	6.1	8.7	12.4

Source: State Statistics Committee of Uzbekistan, World Bank

State guarantees have been particularly instrumental in financing energy and transport projects. Between 2019 and 2023, over USD 9.5 billion in sovereign guarantees were issued to support power generation, renewable energy plants, and railway modernization.

Uzbekistan has actively adopted the PPP model, especially in solar power generation, water treatment, and healthcare infrastructure. By 2024, more than 200 PPP contracts had been signed, with total investment exceeding USD 18 billion. Government guarantees, particularly minimum revenue guarantees and foreign exchange risk coverage, were central to attracting international investors.

While state guarantees promote investment, they also generate contingent liabilities for governments. In Uzbekistan, the stock of government-guaranteed debt increased from 6.2 percent of GDP in 2017 to 18.5 percent in 2023. Although this level remains manageable, rapid accumulation may pose long-term fiscal risks.

Table 2. Government-Guaranteed Debt in Uzbekistan

Year	Guaranteed debt (% of GDP)
2017	6.2
2019	10.4
2021	14.9
2023	18.5

Source: Ministry of Finance of Uzbekistan

To address these challenges, Uzbekistan has adopted fiscal rules limiting new guarantees and introduced risk-based pricing mechanisms to ensure sustainability.

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State guarantees represent a powerful instrument for accelerating economic development and reducing investment risk. International experience and the case of Uzbekistan demonstrate that guarantees can significantly enhance private sector participation, reduce financing costs, and promote infrastructure modernization. However, their effectiveness depends on transparent design, prudent fiscal management, and robust regulatory oversight.

Future policy should focus on strengthening institutional capacity for risk assessment, improving transparency in guarantee issuance, and developing domestic capital markets to gradually reduce reliance on public guarantees. When appropriately managed, state guarantees can serve as a cornerstone of sustainable and inclusive economic growth.

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