

## Public External Debt of Kyrgyzstan

Damira Baigonushova

Kyrgyz-Turkish Manas University, Research assistant

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Public external debt is the portion of a country's debt that was borrowed from foreign lenders including commercial banks, governments or international financial institutions by the state. These loans, including interest, must usually be paid in the currency in which the loan was made. A debt crisis can occur if a country with a weak economy is not able to repay external debt due to the inability to produce and sell goods and make a profitable return<sup>1)</sup>.

After the collapse of Soviet Union in 1991, Kyrgyzstan become an independent state. Since Russia took up the responsibility of resolving all external debts which belongs to the union, the first external debt of Kyrgyzstan appeared in 1992 and has been soaring for last two decades. The largest portion of it was directed to covering the budget deficit, more specifically on social spending, also part of first five years towards restructuring programs like implementation of reforms, president elections, establishment of the necessary institutions. Later, part of external finance was used to improve infrastructure or for supporting social projects. The high level of external debt of the country concerned the World Bank and in 2007, the bank invited Kyrgyzstan to join HIPC program for cancellation of one billion dollar. It refused the offer for two main reasons. First, the country has refused the offer because it turned out that the practice in countries such as Ethiopia and Somalia that was included in the program did not show much success. Second, it was believed that by implementing the program the country may lose political independence.

After 2007 using debt rescheduling method country has managed to reduce the annual payments on the public external debt and despite that unpleasant incident with HIPC has continued to increase external borrowing. Just after 2012 it was decided that new external borrowings will be involved only in the highest priority programs and projects that will promote economic growth and poverty reduction<sup>2)</sup>.

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<sup>1)</sup> <http://www.investopedia.com/terms/e/external-debt.asp?layout=infini&v=3A>, 12.01.2016.

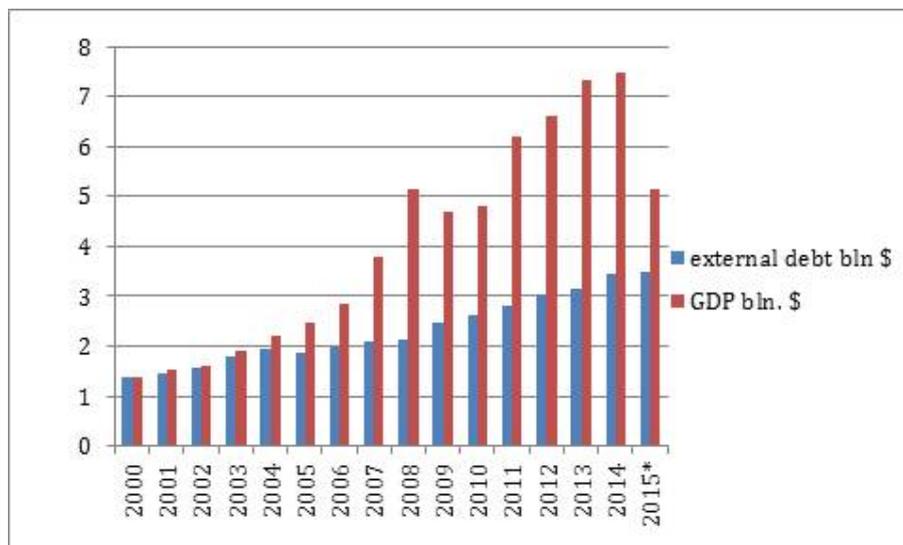
<sup>2)</sup> Public Debt Management Strategy of the Kyrgyz Republic for 2012-2014

(СТРАТЕГИЯ управлениягосударственнымдолгомКыргызскойРеспублики на 2012-2014 годы), 2012:2, 12.01.2016

In 2014 the public debt of the Kyrgyz Republic amounted to \$ 3.65 billion (53.6% of GDP). Of these, foreign debt amounted to \$ 3.44 billion (50.5% of GDP for 2014) while domestic debt - \$ 209.9 million (3.1% of GDP). The Chairman of Supervisory Board under the Ministry of Finance Bakyt Satybekov at the beginning of the year has forecasted that in 2015 foreign debt of Kyrgyzstan may overcome the critical threshold set by the legislation (60% of GDP), so the state may force to change the law<sup>3)</sup>. Despite the fact that the 60% critical threshold still has not been changed, the level of public external debt, in November 2015, was \$3.491 (60.5% of GDP) - a bit over the threshold value. Total Public debt at that time was \$ 3.695 billion (64.1% of GDP) and \$ 204.18 million (3.5 % of GDP) of it was borrowed from domestic sources<sup>4)</sup>. According to many expert including Aiylchy Sarybaev (professor of economics, head of the department of economics at Kyrgyz National Balasagyn University) the foreign debt of Kyrgyzstan is rising significantly in recent years<sup>5)</sup>.

The following figure shows external debt and GDP value of Kyrgyzstan from 2000-2015

**Figure 1. GDP and External Debt in Kyrgyzstan, 2000-2014 period**



\*forecast indicator for external debt and from January to November period indicator for GDP, dates derived from [www.minfin.kg](http://www.minfin.kg) and [www.cisstat.kg](http://www.cisstat.kg). <sup>6)</sup>

As shown in the above figure (figure 1) external debt of Kyrgyz Republic is almost equal to its GDP value during 2000-4. In spite of showing increasing trend in terms of absolute value,

<sup>3)</sup> <http://rus.azattyk.org/content/article/26908844.html>, 10.01.2016

<sup>4)</sup> <http://minfin.kg/ru/novosti/mamlekettik-karyz/gosudarstvennyy-dolg/struktura-gosdolga-kr-na-30-noyabrya-2015-goda-.html>, 15.01.2016.

<sup>5)</sup> <http://www.eng.24.kg/economics/169766-news24.html>, 15.01.2016.

<sup>6)</sup> [www.minfin.kg](http://www.minfin.kg) and [www.cisstat.kg](http://www.cisstat.kg), 19.01.2016.

external public debt measured in terms of percentage of GDP has declined since 2005 mainly because of the growth of the economy outweighs annual growth of public external.

The largest portion of total public debt of Kyrgyz Republic is external debt. The government prefers external debts to internal mainly because they provide large amount of preferential credits with low interest rates. According to Ministry of Finance of The Kyrgyz Republic the largest multilateral creditor is the World Bank, Asian Development Bank, the International Monetary Fund and Islamic Development Bank respectively while, Major bilateral creditors are Russia, Japan, China, Germany and Turkey.

The largest proportion of external debt obligations, in 2014, is from the Export-Import Bank of China which holds \$ 1.2 billion (32.5% of total external debt). This value increased to \$ 1.23 billion constituting 35.1% of total external debt by the end of November 2015. China recently became the largest creditor of Kyrgyzstan and loan gained from China is used to build an alternative route "North-South", electricity transmission lines "Datca-Kemin" and to modernize CHP Bishkek.

It is difficult to properly put the exact figure of the total external debt of Kyrgyzstan. For example, according to official data of the Ministry of Finance at the beginning of 2015 the external debt of Kyrgyzstan amounted to 3.437 billion dollars (50.5% of GDP). It was noted that loan received from China add up to \$1.116 billion. Nonetheless, According to the Minister Olga Lavrova estimates loans received China was \$ 1.8 billion. Furthermore, Ministry of Finance on its website indicates that the debt to Russia amounts to only \$ 300 million which is used to funds projects like construction of the HPP cascade Verhnenarynsk to fasten joining of Kyrgyz Republic in to Eurasian Economic Union (EEU). The Asian Development Bank, on the other hand, recently allocated \$ 110 million for the rehabilitation of HPP Toktogul<sup>7)</sup>. If we continue adding up add up all of these loans, it is equivalent to \$ 4.5 billion- much higher than the figures published on the official website of the Ministry of Finance. Thus, it is clear that the amount of external debt is much higher than the official figures.

Many reasons can be forwarded for the large increase of Kyrgyzstan's external debt. One of them is the rapid growth exchange rate of the dollar. Despite the fact that the National Bank actively pursuing foreign exchange interventions in order to stabilize the exchange rate (the National Bank's net sales in interventions amounted to \$ 511 million in 2014, \$ 287million in 2015 and nominal exchange rate of dollar was 50.4 - 58.9 and 59.8 - 75.6 soms respectively (first end last month's indicators (www.nbkr.kg)), the price of the dollar continues

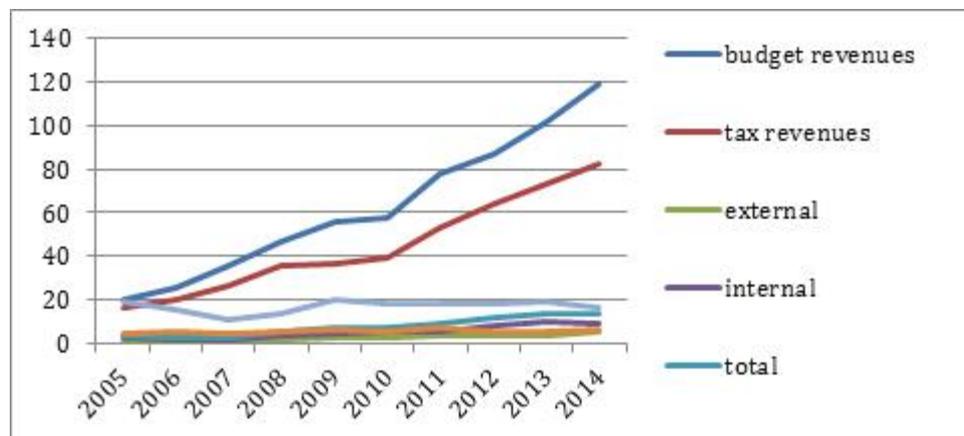
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<sup>7)</sup> <http://rus.azattyk.org/content/article/26908844.html>, 18.01.2016

to rise for last decade which makes the amount to be paid higher than the amount actually received. Kyrgyzstan borrows in US dollars and should have to pay back debt using US currency. But, as mentioned earlier, the price of dollar is increasing in domestic market. The political instability in 2005, 2008 and 2010 and sharp reduction of remittances because of economic crises in other countries are another reason for the deteriorating of financial market and exchange rate so much so the external debt situation in same time.

The following figure shows total revenue, tax revenue and the value of both internal and external debt servicing as percentage of tax revenue.

**Figure 2. Budget Revenues and State Debt Servicing, 2005-2014 period (bln. soms)**



\*schedule drawn up using data from Statistics Committee and the National Bank of the Kyrgyz Republic

From January to November 2015 debt servicing of Kyrgyz Republic amounted 13.88 billion soms from national budget. 6.877 billion is for external public debt and the remaining 6.211 billion is to public domestic debt. As indicated in the above figure (figure 2) the total debt servicing in 2012 was 11.44 billion consisting 3.43 billion to external and 8 billion for domestic debt servicing. In 2013 the total debt servicing was 10.17 billion soms classified us 3.77 billion external and 10.17 billion for internal, while in 2014 it increased to 13.71 billion. During the same year external debt servicing increased to 5.14 billion 36% increase as compared to previous year but internal public debt was decreased by 15%, comparing with previous year, and amounted 8.56 billion. However, since 2005 the total state debt servicing didn't exceeded 20% of tax revenues, and external debt servicing fluctuates between 5-7% of tax revenues (figure 2).

Analysis from the figure above (figure 2) confirmed that debt servicing is increasing at stable rate for the last decade but it might upsurge further in the near future. The strong possibility

of rise of price of dollar and decrease of remittance for the years to come is one of the many economic challenges the country will face. In addition, it is expected that the possible joining of Kyrgyzstan to Eurasian Economic Union (EEU) will make import more expensive and reduce export volume from light industries which will aggravate the exchange rate further. In short, looking the economy of the country a head, it is difficult to predict how and by how much macroeconomic indicators may change and in what direction.

According the preliminary budget statement of the Ministry of Finance of the KR the amount of payments of Kyrgyzstan's public debt since 2015 to 2017 will grow up to 20 billion soms. So, servicing of the public debt of the Kyrgyz Republic in 2015 will be 16.7 billion soms, including 4 billion interest and 12.7 billion principal. It is estimated that in 2016 19.6 billion soms will be allocated for the payment of the national debt, 4.5 billion of which for payment of interest and the remaining 15.1 billion for principal. According to the same estimate Payment of national debt in 2017 will be 20 billion soms which will include 4.8 billion interest payment and a 15.2 billion payment in principal<sup>8)</sup>.

#### [Reference]

1. <http://www.investopedia.com/terms/e/external-debt.asp?layout=infini&v=3A>
2. <http://rus.azattyk.org/content/article/26908844.html>
3. Public Debt Management Strategy of the Kyrgyz Republic for 2012-2014 (Стратегия управления государственным долгом Кыргызской Республики на 2012-2014 годы), 2012:2.
4. <http://minfin.kg/ru/novosti/mamlekettik-karyz/gosudarstvennyy-dolg/struktura-gosdolga-kr-na-30-noyabrya-2015-goda-.html>
5. [http://www.ilo.org/moscow/news/WCMS\\_246020/lang--en/index.htm](http://www.ilo.org/moscow/news/WCMS_246020/lang--en/index.htm)
6. <http://www.eng.24.kg/economics/169766-news24.html>
7. [www.stat.kg](http://www.stat.kg)
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9. [www.nbkr.kg](http://www.nbkr.kg)
10. [www.minfin.kg](http://www.minfin.kg)

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<sup>8)</sup> [http://www.ilo.org/moscow/news/WCMS\\_246020/lang--en/index.htm](http://www.ilo.org/moscow/news/WCMS_246020/lang--en/index.htm), 17.01.2016.