

## **Kyrgyzstan Grapples With Huge Debt**

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Being put on a par with Africa's poorest countries is seen as an affront by many in Kyrgyzstan, but the government may have no other way of managing its debt problems. A proposal by the Kyrgyz government to sign up to a debt relief scheme for the poorest countries has been met with disbelief and anger, since it comes almost a year to the day after the revolution that was supposed to make everything better.

But officials say it is time to face facts, and the international programme may be the only way of dealing with an insurmountable debt problem.

On March 23, Prime Minister Felix Kulov formally wrote to the International Monetary Fund, IMF, and the World Bank which jointly manage the Heavily Indebted Poor Countries Initiative, HIPC, saying Kyrgyzstan was ready to join.

"We will be happy to welcome any debt relief as part of the HIPC, which will help us to solve the problem of debt stability," the letter reads.

The proposal was first floated by Finance Minister Akylbek Japarov and Trade, Industry and Tourism Minister Almazbek Atambaev at a cabinet meeting eight days earlier.

According to Japarov, "Positive results may be achieved, such as writing off multilateral and bilateral debts."

In addition, the deal could make it easier to pay off the interest - itself a heavy burden on government finances.

"Reducing the volumes of debt servicing will make it possible to redirect budget revenue towards health, education and infrastructure," said Japarov.

According to the acting chairman of the Kyrgyzstan National Bank, Maksatbek Ishenbaev, the country could see about half of its total external debt written off.

The Kyrgyz government took out more and more foreign loans in the 15 years that former president Askar Akaev was in power - selling itself as the "Switzerland of Central Asia". But those heady years did not produce sustained economic development, and the new administration headed by President Kurmanbek Bakiev is having to deal with more sober realities.

Total foreign debt is currently put at just over two billion dollars - equivalent to more than 80 per cent of the country's annual gross national product.

Roza Otunbaeva, a prominent opposition politician who served Akaev as an ambassador and Bakiev as foreign minister, blames the old regime for the country's troubles.

"We are currently at the same level as very poor countries, where there are wars going on and which have no future. Akaev brought the country to this level. We are standing on a precipice," she said.

As Ishenbaev admitted at a March 22 press conference, it will take six years just to be admitted to the HIPC programme and the principal – the loan sum itself – will then be written off over a long period, up until 2045. And to get the relief Kyrgyzstan will have to submit to a series of tough conditions, including privatisation of its energy and mining sectors, improved conditions for business, more transparency and less corruption in the public sector, and better overall economic performance.

Admission to HIPC is reserved for the very poorest countries, to stop them being swamped with an unmanageable burden of indebtedness for which conventional debt-relief mechanisms are no longer adequate.

In return, the government concerned has to deliver a package of stringent reforms and stability measures, and of course refrain from plunging itself deeper in to debt.

At a press conference on March 23, President Bakiev promised that if the terms set for Kyrgyzstan were impossible, "we will turn it down".

Some politicians say Kyrgyzstan's application to join the programme is no more than an admission of unpleasant realities.

"Kyrgyzstan's foreign debt is five times the size of its annual [government] budget," said Temirbek Sariev, a member of parliament. "The debts need to be restructured, but because that will take 15 to 20 years, there will be no benefit from this. The situation will not improve as a result."

Despite this pessimistic outlook, Sariev insists, "We must fulfil the conditions of this programme without question. Yes, they will start to dictate terms, but we have no choice – we must put up with it."

Bolot Baigojoev, who heads the private Issykkulinvestbank, suggests that the authorities now recognise that they will never be able to pay off the debt under normal circumstances.

"We need to understand the true state of affairs. Investors don't want long-term cooperation with us now. Their attitude to us is like marriage for one night," said Baigojoev. "I don't understand people who talk about our image. At the moment, Kyrgyzstan's financial rating is already low. How can there be any talk of image?"

Many critics appear more concerned at the loss of face for Kyrgyzstan than the possible implications of strict IMF-World Bank conditionality. Of the 28 countries now in the HIPC scheme, 24 are troubled African states. Their economies are typically based around the export of commodities rather than manufacturing, and they have commonly suffered from poor governance or appalling wars.

Being equated with these countries is seen as a slap in the face in a former Soviet state like Kyrgyzstan.

Even the foreign ministry has expressed dismay. As the ministry's state secretary Taalaybek Kydyrov told the March 15 cabinet meeting, joining the HIPC will damage Kyrgyzstan's reputation abroad.

It is a view shared by other political forces in the country.

Alisher Mamasaliev, leader of the youth movement Kelkel, harks back to the March 24 revolution which toppled Akaev and was supposed to herald a new age. "After the revolutionary changes which took place in Kyrgyzstan, it is a disgrace to admit that we are completely bankrupt," he said. "How can it have happened that after the revolution, Kyrgyzstan has sunk to the level of African countries like Somalia and Uganda?"

Somewhat optimistically, Mamasaliev suggested that Kyrgyzstan should instead model its policy plans on Kazakstan and Russia. But these countries are much larger, with growing economies and fairly healthy national accounts thanks in part to rich oil deposits which Kyrgyzstan lacks. In the real world, emergency debt relief may be the only option.

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**Location:** [Africa](#)

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