

THE PROBLEMS OF THE KYRGYZ EXTERNAL DEBT RESTRUCTURING

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Kyrgyzstan belongs to the group of poorest countries with high debt burden. The size of social problems is so huge that there are no doubts in necessity to increase budget resources for poverty reduction. One of the possible resources is decrease of external debt.

By per capita income Kyrgyzstan belongs to the poorest countries of the world (less than one US dollar in a day). The poverty level grew from 43.5 % to 55.3 % from 1996 to 1999. More than half of population lived under the poverty line and nearly quarter (23.3 %) were in extreme poverty. Due to attention to the poverty problem and certain efforts of the Government the poverty indicator declined from 52.0 % in 2000 to 40.8 % in 2003.

The Government of Kyrgyzstan attaches special importance to the poverty problem. It has determined the target to reduce poverty 2 times by 2010 in the national strategy named Comprehensive Development Framework (CDF) of the Kyrgyz Republic. The National Strategy for Poverty Reduction (NSPR) is a clue part in CDF and determines the development of the country in the middle term perspective.

External debt is only one of the factors impacting on the poverty problem, but it is the significant part of the problem. Uncontrolled public debt undermines progresses achieved on some economical directions, brings to naught all efforts to improve social life.

There are some initiatives for weakening of debt burden of poorest countries. All of them have the following imperfection: they evaluate controllability of debts on the base of indicators correlating sizes of debts and export flows. These coefficients are important, but governments, not exporters, are payers by debts. Liberalization of financial operations in many poor countries has led to the fact that lion's portion of export incomes lie down on private accounts. Government cannot rely on these incomes. It's forced to answer the creditors' demands on the base on budget incomes. That leads to the strengthening of tax burden. So, to use budget incomes for the deflator is more correct for indicating the ability to pay.

The system for regulation of external debts of countries, which have difficulties with servings of their debt obligations and conduct negotiations with creditors, had been formed to the end of 90-th. The first step is agreement with IMF. The preliminary approval by IMF of the program of internal economic measures for regulating situation in a country is absolutely required for following decisions. The agreement with IMF immediately raises solvency of the country.

Creditor countries, IMF and World Bank pursue policies in respect of recipient countries differentially. By World Bank methodology all recipient countries are arranged in accordance with GDP per capita and the level of external debt burden.

Classification by the Level of Debts, %

Indicator	High debt	Moderate debt	Low debt
Ratio of external debt to GDP (%)	80	48-80	<48
Ratio of external debt to exports (%)	220	132-220	<132
Ratio of external debt service to exports (%)	30	18-30	<18
Ratio of interest payments to exports (%)	20	12-20	<12

Classification of countries in accordance with per capita GDP:

- Countries with low income – per capita GDP less than 755 US dollars in a year;
- Countries with medium income (low medium subgroup) – per capita GDP from 756 to 2995 US dollars in a year;
- Countries with medium income (high medium subgroup) – per capita GDP from 2996 to 9265 US dollars in a year;
- Countries with high income – per capita GDP more than 9266 US dollars in a year.

Kyrgyzstan is included in the group of countries with low income and high debt (in 2003 per capita GDP was 377 US dollars, public debt was 92.3 % of GDP). These countries cause special concern of the world economic community.

Let us consider the external debt situation in Kyrgyzstan in general first and then the mechanisms to reduce debt burden. The situation looks in the following way: the main part of external debt falls on the direct external debt, i.e. net obligations of the Government of the Republic. According to the data of the National Bank the total external debt of Kyrgyzstan, including private and IMF credits, was 1982.3 million US dollars at the end of six months of 2004, and 1803.9 million US dollars from this debt was public.

As regards the structure of the Kyrgyz external debt the multilateral public debts (including credits of IMF, the Asian Bank, Islamic Bank of Development and other regional banks) constitute 60% of the external debt; then bilateral public debts (30%) and private debts (10%) follow.

The indexes of external debt burden are required to have the following limit values:

- 1) External debt to GDP – not more than 80% of GDP.
- 2) External debt – not more than 200-220% of annual exports.
- 3) External debt service – not more than 15-20% of exports.
- 4) External debt service – not more than 10-15% of budget income.

The debt is considered as moderate if the first value is within the limits of 18-80% or the second is within the limits of 132-220%.

The burden of the Kyrgyz external debt had the following indexes at the end of the six months of 2004:

- 1) External debt was 86.7% of GDP.
- 2) External debt was 215.2 of the export.
- 3) External debt service was 17.5 of the export.
- 4) External debt service was 27.7% of budget income.

Restructuring (reorganization), i.e. prolongation of payments is prevalent in regulations of debt payments. Debts to be paid within one year, two-three years or over a long period of time can be delayed. Restructuring delivers debtors and creditors from negotiating every year. It gives temporary relief to debtors, annual payments decrease, yet size of debt doesn't reduce but increase because of longer period acquaintance and therefore bigger interest payments.

In the process of debt restructuring reorganization (flow rescheduling) of some debt service payments (may be decreased in consolidation period) usually goes first. After that, in condition of successful performance, debt might be restructured (stock-of debt operation).

The few standard schemes of decreasing of debt burden are applied in the frames of the Paris club. These schemes have the following conditions:

1. **Classic conditions.** All credits, including commercial, are restructured by market rate; the payment period is extended on ten years, including three-year period of grace.

2. **Houston conditions.** These have being applied to the countries with "low medium" income and high debt since September 1990. Extension of the payment period up to 15 years, ten-year period of grace and favorable rates are applied.

3. **Naples conditions.** These have being applied to the countries with low income and high debt burden since December 1994. The 50-67% reduce of debt is applied.

4. **Colon conditions.** These have being applied to the poorest countries and high debt burden (which are under HIPC initiative) since November 1999. The 90% and more reduce of debt is applied.

5. **Toronto conditions.** These had being applied since October 1988 but now they are substituted by Naples conditions. The reduction of debt on 1/3 was applied.

6. **London conditions.** These had being applied since December 1991 but now they are substituted by Naples conditions. The reduction of debt to 50% was applied.

7. **Lion conditions.** These had being applied since November 1996 but now they are substituted by Colon conditions. The reduction of debt to 80% was applied.

Kyrgyzstan has applied to the Paris club with request about Naples conditions, but the proposal was turned out. Paris club decided to grant "Houston conditions" to our country, which are applied to the non-poorest countries (countries with low middle income and high debt).

Bilateral official credit agreements, signed before 31 August 2001, were the subject of the restructuring. These debts of Kyrgyzstan had been accumulated to the sum 449.7 million US dollars, from them 225.6 million US dollars were favorable credits in the frame of Official Development Assistance (ODA) program and 224.1 million US dollars were not favorable (non-ODA).

On 7 March 2002 creditors of the Paris club agreed to restructure the Kyrgyz external debt, which was about 1.5 milliard US dollars. This agreement succeeded to the approval of the Poverty Reduction and Growth Facility (PRGF) program by IMF (6 December 2001). As a result of the restructuring the debt service of Kyrgyzstan of the 2002-2004 was reduced from 101 to 5.6 million US dollars, i.e. the budget reduced their debt service expenditures on 95.4 million US dollars. These 95.4 million US dollars were not written of but main payments were postponed. The purpose of the rescheduling was to lighten the budget, to support economic reforms and PRGF program.

The Paris club has restructured only the current debt; the accumulated debt stays on the same high level – 86.7 % of budget (at the end of six months of 2004). In 2005 the share of budget directed to the debt service will be again high than 30%. That means that we must reduce expenditures on the social protection, health care, education, pensions, and public sector.

In conclusion, it should be paid attention to that: the high level of external debt is becoming the real threat of getting country into "debt noose", when possessed and attracted resources direct to the debt payments in increasing volumes but not to the economic development. That's why to reduce external debt is the key strategy for directing more means to poverty reduction.

February 2005