

The national currency of Kyrgyzstan has become cheaper in just two weeks of March for over 20 per cent against the American dollar. This is one of the worst indicators among EAEU countries.

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On March 6, the OPEC countries failed to reach a deal on the amounts of oil production. Despite the fact that the Kyrgyz som is not directly related to the oil market, it has sharply reacted to the decline in black gold quotes.

The point is that the economy of Kyrgyzstan is deeply integrated into regional trade relations. Thus, the events in the main partner countries of EAEU (Russia, Kazakhstan) have a chain reaction on the Kyrgyz Republic.

The meeting of the Organisation of the Petroleum Exporting Countries, including Russia, has laid the ground for what happens today in currency markets of a range of countries. Oil developers have differed in their opinions: Russia is known for continuation of the deal with the OPEC, while Saudi Arabia was against it.

The reaction to these differences came fast. The first to react were the rouble/dollar pair. On March 8, the American currency went up: it became 3.62 roubles more in a day. Now the Russian currency is still unstable and tends to lose its position against the dollar. In total, according to the Central Bank, rouble went down in value by 26.07 per cent from the start of the year (as of March 21).

The Kazakh tenge followed the rouble and got cheaper. According to the National Bank of Kazakhstan, it went down by 16.26 per cent. The financial regulatory authority of the neighbouring country explained the decline of the national currency by reduced oil prices.

The Kyrgyz som weakened against dollar by 20.16 per cent amid these events. No one expected such a decline of the som.

According to the forecasts of the National Bank of Kyrgyzstan (NBKR), the national currency should have maintained its position against dollar at the level of 73 som, i.e. should have declined only within 5 per cent.

At the March 11 briefing, the head of the National Bank, Tolkunbek Abdygulov, said there were no factors for the national currency crash. Later, March 16, Prime Minister Mukhammedkalyi Abylgaziev said at the meeting of the Republican Headquarters for Coronavirus Prevention in the Country that the dollar wouldn't be higher than 73 som.

"We, together with the National Bank, have joined our efforts to keep dollar to som rate at 73.1. We are going to keep it at that level," prime minister promised (as cited on [kabar.kg](http://kabar.kg)).



Photo: [kabar.kg](http://kabar.kg)

### **"Dollar will continue to go up"**

The National Bank of Kyrgyzstan spent 113.7 dollars in four interventions to mitigate the exchange rate in March. However, they didn't help.

According to the head of the NBKR, the craze of people counted against the Kyrgyz som. The decline of the Russian rouble would have definitely adjusted the exchange rate, but not very much.

"The exchange rate of the American dollar we have now is the result of the foreign exchange demand and supply ratio in our domestic market. Thus, the break-even (buy and sell ratio) exchange rate of the American dollar against the national currency was 84.9 som

as of March 19,” Abdygulov said at the briefing to journalists on March 20 (as cited on akchabar.kg).



Tolkunbek Abdygulov. Photo: 24.kg

Moreover, he emphasised the demand for the American currency was mostly caused by psychological factors.

“The intervention by the National Bank on March 19 showed that the real market needs in this currency were 3.7 million dollars. While in the morning of the same day the need for the American currency was estimated at 50 million dollars,” he emphasised.

Also, Abdygulov said at the briefing that the som exchange rate would be adjusted in a few days and would go down (author’s note – from 85 som per 1 dollar). The short-term forecast was true and on March 22 one dollar cost 77.5 to 79.3 som.

However, long-term forecasts of experts are not that optimistic. According to analysts, the national currency will go down significantly. According to the most daring forecasts, one dollar in the exchange market of Kyrgyzstan will reach 100 som per dollar.

On his Facebook page, financial expert and managing partner of Tredstone Capital Partners, Umbriel Temiraliev, wrote that it’s highly likely that dollar will go up in 2020:

The chronic trade balance deficit, decrease of foreign investments and business activity (trade, production, etc.) due to coronavirus, as well as the expected decline of money transfers from migrants, reduction of textile export and tourist flow to the country – all these factors will have their impact on som in 2020.

Economist **Azamat Akeneyev** shares the same opinion. According to him, now we are witnessing the beginning of the global recession, which usually takes place every ten years. The economic growth that started in 2009 is over now. The decline of world and American stock markets is estimated at 30 per cent and more.

“The recession is always accompanied by dollar strengthening. This is because investors leave oil, gold and developing countries. Therefore, national currencies of these countries go down, especially in oil-producing countries,” the economic expert emphasised.

He noted that Kyrgyzstan would have more losses if the republic was more integrated into the global financial system.

“Soon we will feel real declines of money remittances and exports, which will most likely cause the devaluation of som. The extent of the devaluation will depend on how fast the recession will end. It usually lasts for 1-2 years, and then we’ll see some growth,” the expert added.



*Azamat Akeneyev. Photo: kloop.kg*

### **The rate of som will most likely devalue gradually.**

This forecast excludes the coronavirus that aggravates the situation. Financial sector suffers most from the recession, and the pandemic hits the real economy. According to experts, the overlapping of all these factors - weakening of the national currency, recession, and coronavirus pandemic - can lead to the throwback of the Kyrgyz economy to the 90s.

### **How to pay off loans?**

Business associations have already suggested to provide some exemptions to entrepreneurs to support them. In particular, they suggest to provide tax holidays, to postpone the submission of the Joint Tax Return and to prolong the audit moratorium.

### **The erosion of purchasing power and closed borders are a serious load on business.**

What we should understand is that business suffers much from the jumps of the national currency against dollars. Many entrepreneurs take loans in American currency as they purchase equipment or goods abroad.

The owner of one of the enterprises in Chui region said the majority of funds are spent to modernise equipment that is not produced in Kyrgyzstan. Supplies come from Europe; all payments are made in euro.

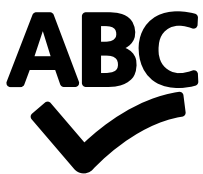
“Due to the exchange rate jump, our debt has increased just in a few days by seven million som. Amid the global recession, the erosion of purchasing power and closed borders are a serious load on business,” said the entrepreneur.

According to NBKR, the Kyrgyzstanis received 146 billion som as loans in the banks of the republic (about 2.1 billion dollars at the previous rate) as of the end of January 2020. One third of such loans were in dollars.

As of March 23, the debt of the people in the American currency to commercial banks increased by 19.6 per cent due to the decline of the national currency. Moreover, those who suffered from the foreign exchange difference cannot expect any assistance. Only those businesses that suffer losses due to the pandemic will be supported. The government does not consider tax and repayment holidays for small and medium businesses.

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*This article was prepared as part of the Giving Voice, Driving Change - from the Borderland to the Steppes Project.*



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