



Investment Policy of the Kyrgyz Republic in the Framework of Integration Process

The Center of Economic Research
The National Bank of the Kyrgyz Republic

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Main macroeconomic indicators of the Kyrgyz Republic

	2005	2010	2011	2012	2013	2014
Nominal GDP, million USD	2458,8	4794,8	6197,8	6602,5	7335,3	7403,2
Real GDP growth, %	-0,2	-0,5	6,0	-0,1	10,5	3,6
Real GDP growth without Kumtor, %	101,9	99,0	106,3	106,3	106,1	104,6
FDI (without outflow), million USD	210,3	666,1	849,2	590,7	964,5	443,3*
FDI to GDP, %	8,6	13,9	13,7	8,9	13,1	n/a
Inflation end of period, %	4,9	19,6	5,7	7,5	4,0	10,5
Average monthly salary, US dollars	63,3	151,6	201,2	229,8	232,3	231,8
Export, million USD	672,0	1488,4	1978,9	1673,0	1790,5	1879,9
Import, million USD	1101,3	3223,1	4261,2	5576,3	6069,8	5732,4
Current account, % to GDP	-1,5	-6,6	-10,3	-25,4	-24,6	-20,4

* - 9 month of 2014

Economic achievements of CAREC countries

	2005-2013 (average)				
	Afghanistan	Azerbaijan	PRC	Kazakhstan	Kyrgyzstan
Real GPD growth, %	9,7	13,2	10,2	6,6	4,3
Inflation end of period, %	8,1	7,7	3,1	8,5	9,6
Total Investment to GDP, %	29,7	24,1	45,3	28,8	23,2
Population, million	27,7	8,9	1334,3	16,1	5,4
Current account to GDP, %	3,3	22,0	5,4	-0,5	-7,9
	2005-2013 (average)				
	Mongolia	Pakistan	Tajikistan	Turkmenistan	Uzbekistan
Real GPD growth, %	9,1	4,4	6,9	11,2	8,2
Inflation end of period, %	11,4	10,6	10,2	6,7	12,1
Total Investment to GDP, %	45,8	16,8	17,7	n/a	30,3
Population, million	2,7	167,5	7,4	5,3	27,9
Current account to GDP, %	-12,7	-3,1	-4,3	3,7	6,0
Source: World Economic Outlook Database, www.imf.org					

Investment environment in the Kyrgyz Republic

The average growth of real GDP for last 10 years (2005-2014) was 4.3 percent, the lowest level among CAREC countries.

The average share of Foreign Direct Investment in GDP for last 9 years (2005-2013) was 12.5 percent.

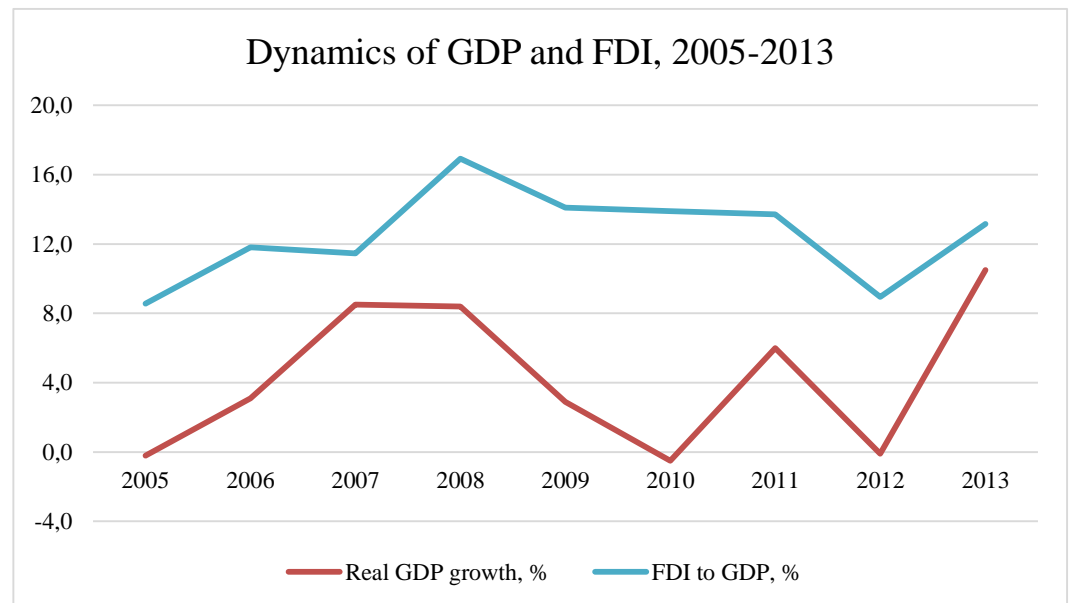
Insufficient level of investment – is one of the reasons for the low growth of the economy.

Investment environment in the Kyrgyz Republic

The Chart shows strong correlation between real GDP and Foreign Direct Investment.

FDI has a positive impact on Kyrgyz economy. When investment decreases, the economy slows down.

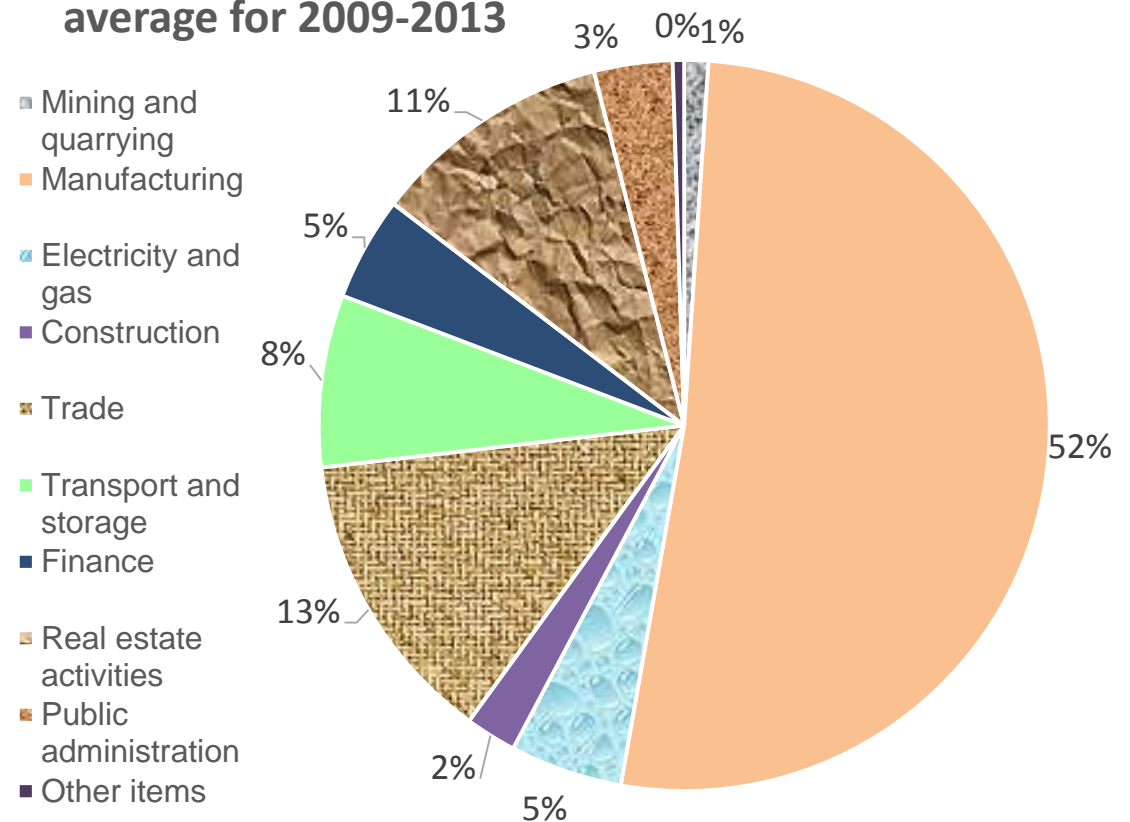
Sufficient level of investments are important component for sustainable economic development.



Investment environment in the Kyrgyz Republic

Foreign investments mostly go to the Manufacturing Industry (Kumtor company).

Investment inflow by sectors
average for 2009-2013



Investment environment in the Kyrgyz Republic

- ✓ The main source of foreign investment come is Canada due to gold production at the Kumtor mine.
- ✓ Investment from PRC is steadily growing due to the implementation of joint projects.

Foreign investment inflow by countries	2009	2010	2011	2012	2013
(share)	100,0	100,0	100,0	100,0	100,0
Non CIS countries	64,9	76,9	82,7	78,8	78,1
Canada	36,0	41,5	51,9	33,7	35,8
People's Republic of China	5,6	6,5	7,2	15,3	16,1
Turkey	5,2	2,1	1,8	3,2	2,4
Other International Organizations	4,1	7,9	5,2	8,0	9,8
CIS countries	35,1	23,1	17,3	21,2	21,9
Kazakhstan	9,3	6,4	6,4	7,7	7,6
Russia	22,8	13,3	8,0	10,8	10,8

Investment climate improvement, necessary measures

- ✓ Stability of the legislation system
 - giving the investor the right to choose the optimal regime in case of some changes in legislation;
 - implementation of legislative restrictions on adoption of regulations that worsen the position of investors.

- ✓ Strengthening the protection of property rights
 - establishing well-defined grounds for forcible withdrawal of the private property by the state;
 - granting foreign investors the same rights in respect of private property that the citizens of the Kyrgyz Republic have.

Investment climate improvement, necessary measures

- ✓ Reduction of administrative barriers
 - optimization of the licensing and permitting process
 - optimization of control, regulation and supervision of business

- ✓ Favorable tax regime for investment
 - improve the fairness of the tax system
 - further work to reduce social security contributions to the Social Fund
 - improvement and strengthening of tax administration

Investment climate improvement, necessary measures

- ✓ Changing the regulation of entry and exit from the market (easier registration and liquidation of legal entities).
- ✓ Simplification of the procedure for obtaining employment visas and work permits.

Kyrgyzstan's membership in international organizations

- ✓ United Nations since 1992
- ✓ Central Asia Regional Economic Development since 1997
- ✓ World Trade Organization since 1998
- ✓ Eurasian Economic Community since 2000
- ✓ Shanghai Cooperation Organization since 2001
- ✓ Customs Union and Eurasian Economic Union will be in May 2015

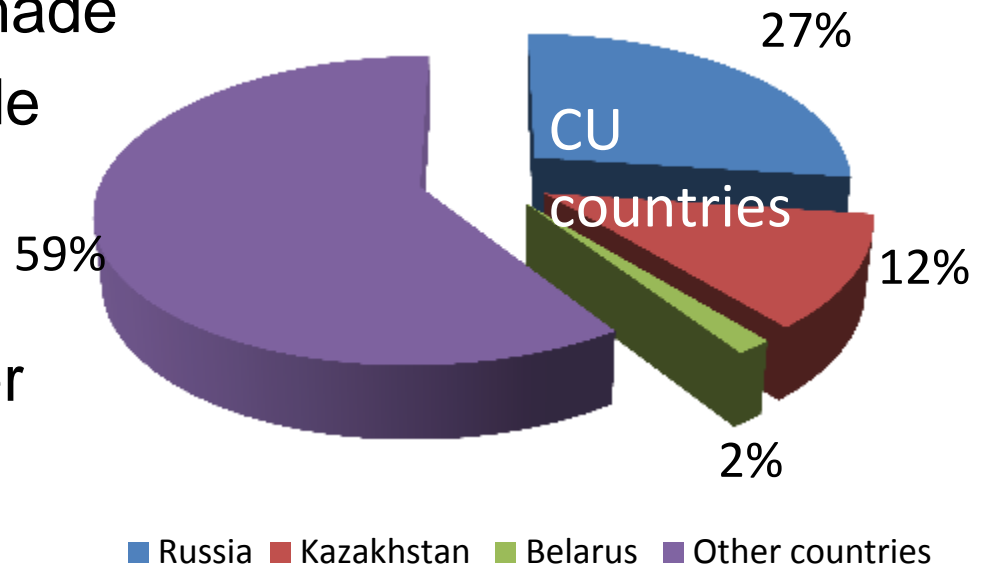
Axiom of modern economy:

Well-being of the national economy of any country throughout the world depend primarily on the degree of integration with the economies of other countries.

The Kyrgyz Republic within the Customs Union and Eurasian Economic Union

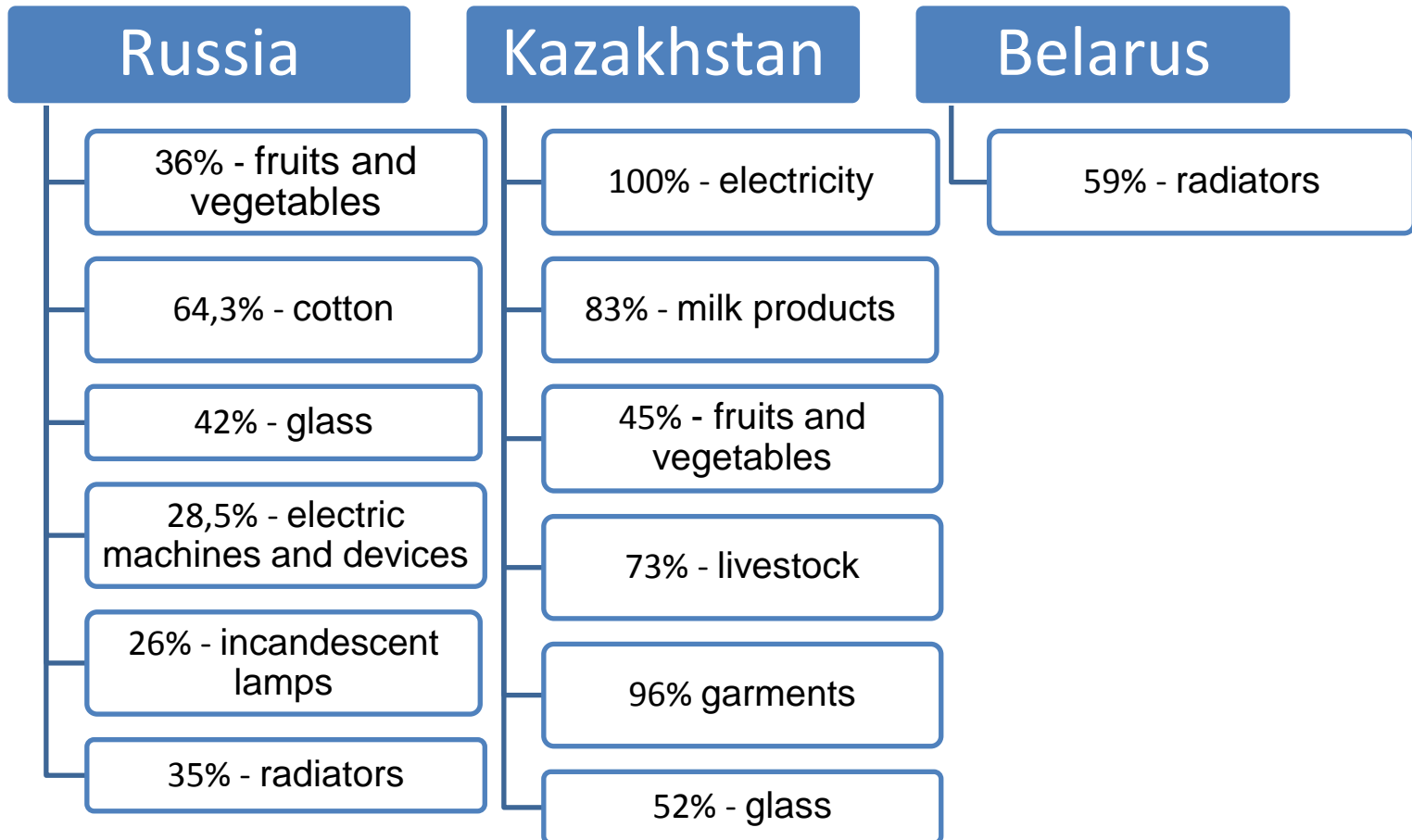
Background

- ✓ Trade with CU countries made 40.7% of total foreign trade of the country in 2013
- ✓ The biggest trading partner is Russian Federation



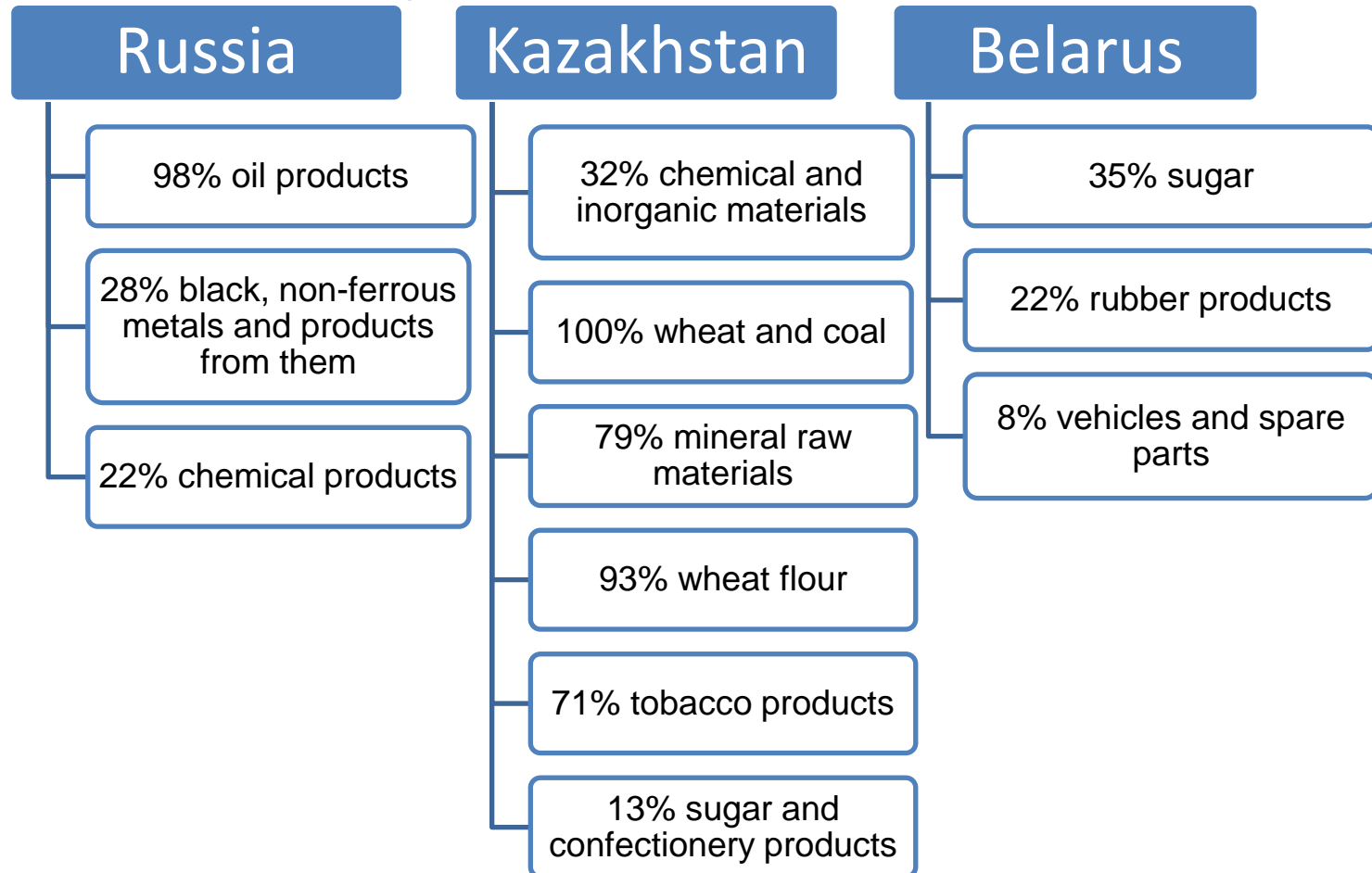
The Kyrgyz Republic within the Customs Union and Eurasian Economic Union

The main exported commodity items to the Customs Union countries



The Kyrgyz Republic within the Customs Union and Eurasian Economic Union

Imported goods from Customs Union countries



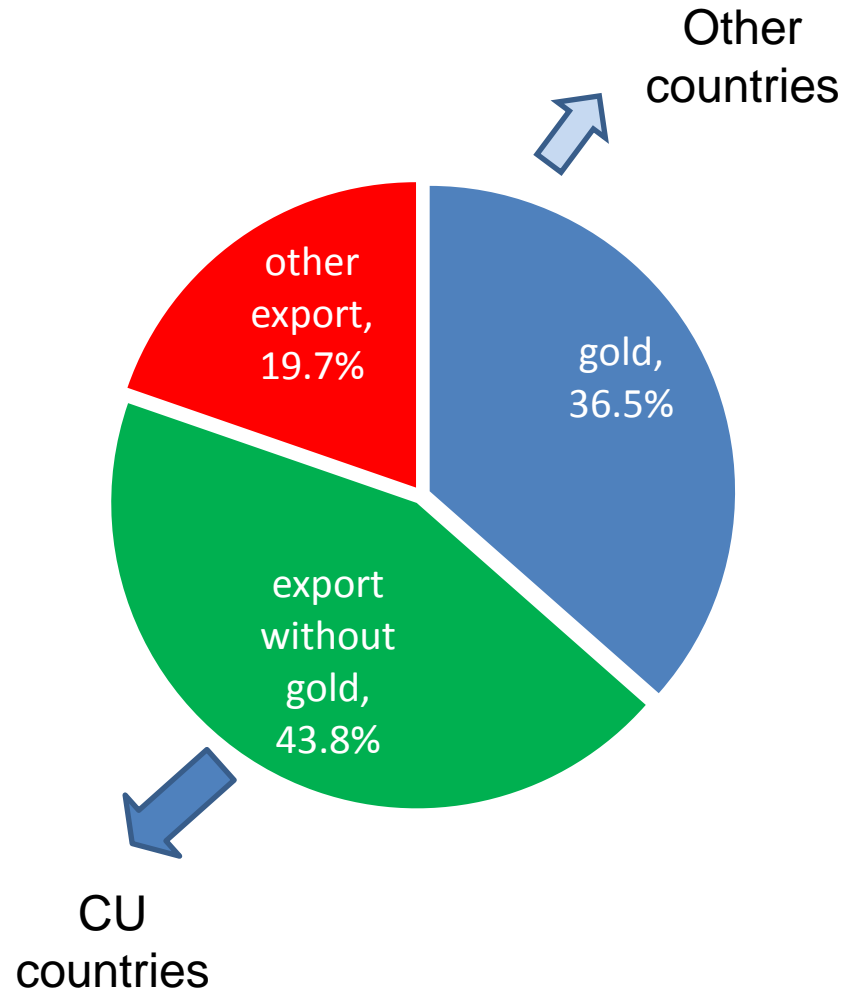
The Kyrgyz Republic within the Customs Union and Eurasian Economic Union

Exports from Kyrgyzstan to the countries-members of the Customs Union in 2010 - 2013 fell down by 21.5% (mostly re-export from PRC).

The reasons:

- high customs tariffs;
- goods do not meet standards of the Customs Union.

As the result, exports without gold almost did not grow.



The Kyrgyz Republic within the Customs Union and Eurasian Economic Union

- In May 2015, the Kyrgyz Republic will join the Customs Union and the Eurasian Economic Union

Advantages

- ✓ favorable conditions for trade without customs borders.
- ✓ easier access for investors from Russia and Kazakhstan to Kyrgyz market; significant increase in investments and implementation of big projects without customs duties and barriers.
- ✓ solution of problems related to labor migration.
- ✓ duty-free delivery of strategic goods (oil, gas and etc.).

The Kyrgyz Republic within the Customs Union and Eurasian Economic Union

Disadvantages

- ✓ Increase in prices for certain types of goods imported from non-CU countries.
- ✓ Reduction of imports from PRC, employment decrease in wholesale trade.
- ✓ Poor people might become even poorer because they would not be able to buy goods from PRC for the cheap price as it was before.

The Kyrgyz Republic within the Customs Union and Eurasian Economic Union

- ✓ The Kyrgyz-Russian Development Fund will be created with a capital of \$500 million in order to make Kyrgyz economy meet the requirements of the Customs Union.
- ✓ In addition, the Russia undertakes an obligation to attract the loan for Fund in the amount of \$500 million on IDA (International Development Association) conditions and without guarantees of the Government of the Kyrgyz Republic.
- ✓ The Fund will focus on the implementation of investment projects in strategic areas: agriculture, clothing and textiles, manufacturing, etc.

The Kyrgyz Republic within the Customs Union and Eurasian Economic Union

- ✓ The Russian side will form the capital of the Fund in equal installments within two years.
- ✓ First tranche of \$100 million was transferred on December 31, 2014.
- ✓ Russia gives \$200 million grant for the implementation of the “road map” on the accession of the Kyrgyz Republic to the Customs Union membership.

The Kyrgyz Republic within the Customs Union and Eurasian Economic Union

By joining the CU, Kyrgyzstan is not defending itself from the rest of the world

- ✓ CU is not undermining our sovereign rights
- ✓ There are current agreements of free trade in CIS countries
- ✓ Kyrgyzstan is a WTO member and will keep its obligations to the Organization
- ✓ It will keep its policy of business development to create the best business stimulation platform within the CU countries
- ✓ It is aimed to increase the exports not only to the CU countries, but also to the rest of the world.

Expected Investment inflows to the Kyrgyz Republic

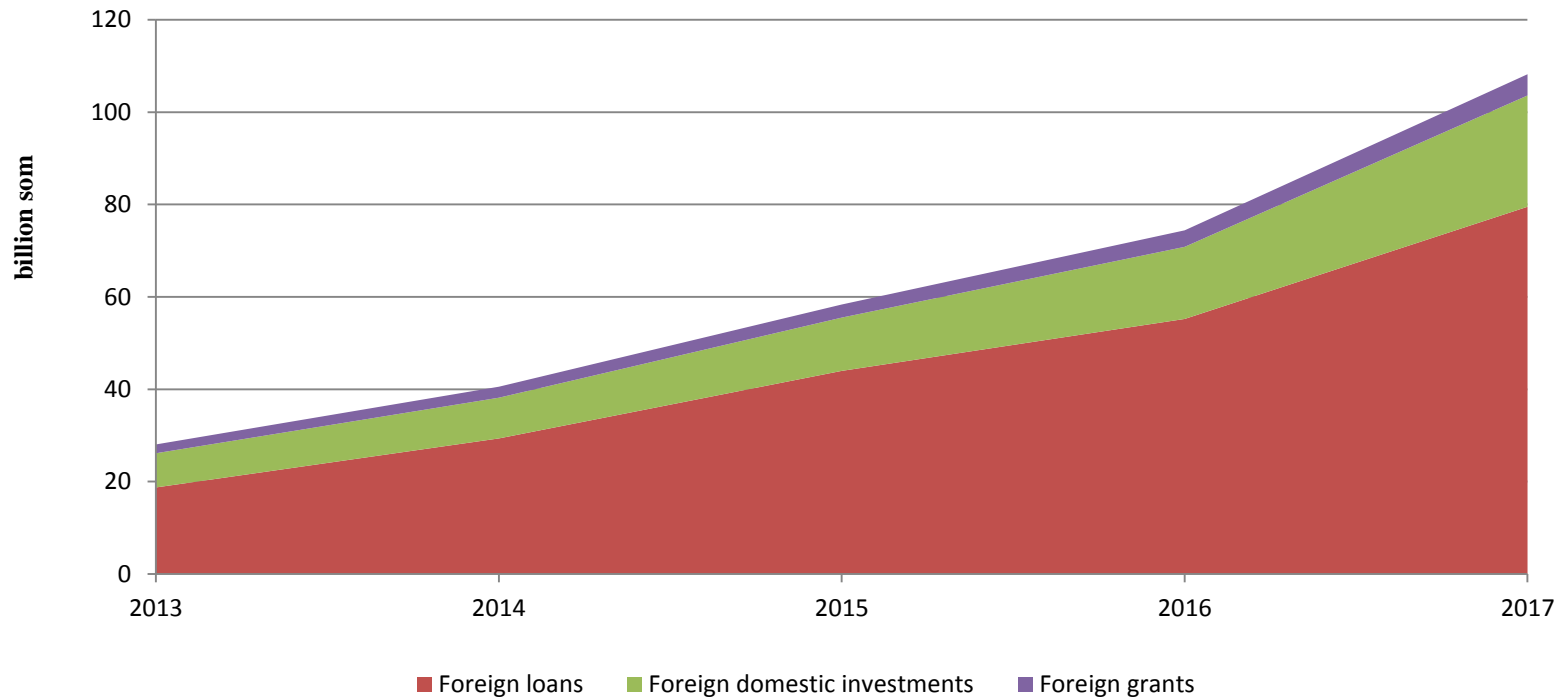
- ✓ It is expected that in 2015-2017 foreign investments to Kyrgyzstan will significantly increase, mainly due to foreign credits (\$1.6 billion from PRC – construction of roads, and the Bishkek central heating system).

Investment to fixed capital (2013 – actual, 2014-2017 – projection)

		2013	2014	2015	2016	2017
Investment growth to fixed capital	%	2,3	18	22	20,9	21,4
Domestic Investment growth	%	-1,9	9,1	14,3	22,2	9,9
Foreign investment growth:	%	10,7	33,8	33,1	19,2	36,2
Foreign loans	mln. soms	18733,8	29347	43976,5	55219,7	79518,9
Foreign direct investments	mln. soms	7407,3	8821,4	11539,3	15617,2	24107,6
Foreign grants	mln. soms	1908,4	2374,87	2833,8	3578,4	4598,4

Expected foreign investment inflows

**Expected foreign investments inflows, billion soms
(2013-actual, 2014-2015-projection)**



Investment Policy of the Kyrgyz Republic in 2015

- ✓ Minimization of the intervention of the state to business
- ✓ Wide adoption of mechanisms of state-private partnership
- ✓ Improving the infrastructure of the economy
- ✓ Political, legislative, economic, and social stability
- ✓ Focus on two foreground areas:
 - ✓ Creation of mechanism to attract and support the investment inflows
 - ✓ Improving the efficiency of public investment policy
- ✓ Active policy of promoting the investment projects by the Investment Promotion Agency

Thank you