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Economic report¹

Executive Summary

The Kyrgyz economy is showing promising signs of recovery as in 2017 economic growth improved to 4.6% from 4.3% in 2016, reflecting gains in industry, along with higher government spending and remittance earnings. Public debt and financial sector vulnerabilities have subsided due to favourable regional environment. Inflation accelerated to 3.2%, and the current account deficit narrowed to 3.1% of GDP from 11.6% in 2016. The government is trying to promote economic diversification through digitalization.

While the external (regional) environment was relatively favorable in 2017 significant risks remain. Headline GDP figures are heavily influenced by both gold production at Kumtor mine and gold prices that tend to be volatile. In 2017, the output from Kumtor accounted for 46.7% of total industrial production and 8-9% of the country's annual GDP. More than 17,000 jobs were created and supported in Kyrgyzstan in 2017 through the gold-mine sector. The total impact of gold-mining sector was about 15% of the total state tax and non-tax revenues. Over the last few years, the Kumtor gold output followed a decreasing trend. According to Kyrgyz Government estimates, GDP accelerated in 2017 as strong gains in industry offset slower growth in services and agriculture. On the demand side, growth found support from higher public consumption and investment linked to elections spending and a modest rise in private consumption that reflected a 24% improvement in remittance earnings. However, there is no evidence that cash inflows from abroad would continue growing in 2018 and after by the same pattern. Average inflation grew up caused by strong demand and higher import prices.

In order to ensure macroeconomic stability, the Kyrgyz Government recently introduced fiscal rules concerning fiscal deficit and public debt to GDP ratios up to 3% and 70% respectively. Thus, last year it narrowed down the fiscal deficit to 3.2% of GDP from 4.4% in 2016 despite election-related spending. With the smaller deficit and currency appreciation, external government debt fell in 2017 to 54.5% of GDP from almost 60% in the previous years. Monetary policy remained cautious in 2017, with the National Bank of the Kyrgyz Republic (NBKR) intervening on currency markets only to smooth excess exchange rate volatility. It kept the policy interest rate at 5.0% for the whole 2017.

Although the current account balance substantially narrowed down to 3.1% from 11.6% in 2016, trade balance slightly widened and is still negative. Trade rose by almost 15% as exports expanded by 16% on gains in gold and agricultural products, and as higher demand for oil products, construction materials, textiles, and consumer goods increased imports by 14%.

Fiscal consolidation remains essential to rebuild financial buffers and ensure debt sustainability. Consolidation should focus on increasing tax revenues by implementing permanent measures, such as broadening the tax base and strengthening the tax and custom administration. Rationalizing expenditures will also be needed, and involves reforming public wages, cutting subsidies, better targeting social benefits, and improving the public investment framework. These important policy measures and the need for systemic structural reforms to be implemented by the Government were repeatedly voiced by International Monetary Fund (IMF) experts during their review missions to the country under the three-year Extended Credit Facility (ECF) Program. It is worth to mention that some fiscal

¹ Main sources: IMF Report, ADB ADO 2018, EIU Report (February 2018)

consolidation measures and structural reforms (e.g. digitalization of public services and functions by the state agencies and line ministries) are included in the Government Reform Program for 2018-22 (“Trust, Unity and Creation”). Yet, the IMF Program expired in April this year without being fully completed and prolonged by the Government. This can have negative consequences for the implementation of structural reforms and policy measures aimed at sustained economic growth.

1 Economic problems and issues

1.1. New agreement with Kumtor mine and remittance flows

The Kyrgyz Republic is a small, landlocked country with limited natural resources, narrow economic base and limited number of skilled labor force². Therefore, worker remittances and gold exports are the main income sources. Remittances from Kazakhstan and the Russian Federation have averaged about 25% of GDP during the past few years, while gold production has been estimated to provide on average 8-9% of GDP and nearly 30% of export earnings. In 2017, the Government finally found the way out by signing an agreement under which Centerra³ took on new obligations aimed at expanding the financing of environmental activities⁴. However, according to reliable sources, it seems that the Government will not fully implement its part of the agreement. Thus, revenue sources from gold production and its export as well as remittances are not sustainable in the medium- and long-run for the country as both gold output and prices are volatile and both tend to decrease. Besides, the Government forecasts sharp decline (from 24% in 2017 to 5-6% growth in 2018 and onwards) of remittance’s inflows from this year due to new sanctions imposed by EU against Russia whereas most of Kyrgyz labor migrants are working at present.

1.2. Government plans on diversification and digitalization of the economy

With limited opportunities for sustainable growth in the mining sector, projected low energy generation capacities, subsided contributions to GDP of agriculture and service sectors (mainly trade) from 2018 and onwards, the Kyrgyz Republic needs to diversify its economy, introduce structural reforms and policies aimed to find new and sustainable revenue sources. Another key obstacle to further development has been the country’s lack of advanced business facilities, including poor connectivity. According to the Global Competitiveness Report 2017–2018, in which the Kyrgyz Republic ranks 102 out of 137 countries, it ranks particularly low in innovation at 127 and business sophistication at 126. It also lags behind in technological readiness at 102 and infrastructure at 109. These priorities are outlined and in the recent Government Reform Program for 2018-2022. It is worth to mention here that the new Government strategy replaced the one introduced by the ex-cabinet of ministers in 2017 called “Kyrk Kadam” (Forty Steps) and where “Taza Koom” (Clean Society) initiative was presented as top priority for the Government. The initiative entails the establishment of information infrastructure, cyber security to enable a cashless economy, and the streamlined delivery of services by national and subnational governments. “Taza Koom” initiative was also envisaged to improve public administration and the delivery of services such as education and health care, to increase transparency in the public sphere to fight corruption (as the name suggests), and reduce the transaction costs that firms incur to meet registration and other regulatory requirements and to pay taxes. Unfortunately, with the recent changes of the Government (Prime-minister and some of the key ministers) that initiative is no longer among top priorities and its status is not clear though some of elements of digitalization still remain in the new country’s development strategy.

1.3. Relevance of fiscal, monetary, financial and structural reform policies including governance issues

While the medium-term priorities and long-run vision of the recently formed Government are not yet clear at present, no one disputes on the need and relevance for introduction of a new growth model for the country’s sustainable and inclusive growth based on greater openness, diversification as well as regional and global integration. With external debt level reaching almost 60% of country’s GDP, Kyrgyzstan has limited capacity to increase public spending to boost growth, while weak banking sector limits the availability of affordable credit to boost private investments in the economy. This proves that the current growth model that is largely based on mining, remittances, foreign aid is, more and more, inconsistent with an economic vision that champions strong and sustainable inclusive growth. Therefore, the top priority for Kyrgyzstan for medium- and long-term given the current regional and global context, is to accelerate the transition to an economic growth model underpinned by a strong private sector. This will require several steps. One of these steps would be to *improve business climate* by addressing problems with contract enforcement, reliable electricity supply, resolving insolvency, and paying taxes - all areas where the country ranks especially low, at 100 or

² Out of 6 million population about 1.5 million of working-age population - labor migrants - are permanently living and working abroad, mainly in Russia and Kazakhstan.

³ Canadian company owning Kumtor.

⁴ The Kumtor Gold Company contributed a \$50 million one-time payment to the Fund and will annually invest \$2.7 million until the end of the Kumtor mine operation. According to the Kyrgyz Government, the mechanism for the further development of the Reclamation Fund of the Kumtor project was clearly defined, and its funds will now be placed in the financial institutions of the country and will be replenished every year by USD 6 million.

worse among 190 countries covered in the most recent World Bank Doing Business survey. Another step is to strengthen its *fiscal and financial sector* resilience as well as to pursue sound *monetary policies*. This should include strengthening state revenues to help finance public investments and small and medium businesses by micro- and financial institutions without increasing debt. Finally, structural reforms to address above policy measures - including also governance issues to fight against corruption - should support successful economic integration and openness to both global and regional trade. Trade policy reforms that take greater advantage from preferential arrangements accorded by the Kyrgyz Republic's trading partners under Eurasian Economic Union (EEU) and European Union General System of Preferences (GSP+).

While the global and regional economic outlook is still positive for the country, Kyrgyz Government should capitalize on its reform momentum and use this opportunity to further accelerate structural reforms including those advised by the donors and international financial institutions (IFIs). By unfortunate coincidence, the recent change of Kyrgyz Government coincided with expiration of the IMF ESF Program (April 7, 2018) without completion of several key program targets. Unwillingness from the Government and NBKR to fulfill IMF Program targets and complete all its targets - amendments to the Banking Law concerning independence of the NBKR board - could *worsen the general macroeconomic situation* in the country caused by reform slippages. According to the latest information from the IMF Local Office, there are no any signs as yet that the Government is ready for the re-engagement with the Fund under a new program or extension of the expired one and fulfillment of all agreed targets.

2 International and regional economic agreements

2.1 Country's policy and priorities

The main country's policy regarding the regional and/or international agreements, like in the previous years, is to address the government's main policy challenges in the short- and medium-run, including but not limited to the reduction of the country's high level of poverty, management of the regional economic downturn, fighting against corruption, ensuring macroeconomic stability, enhancing trade and harnessing the potential of the country's natural resources. The Government Reform Program for 2018-22 ("Trust, Unity and Creation"), recently released by the new Government, describes how the Government intends to address these challenges (see under).

Since its independence in 1991, Kyrgyzstan is a signatory to 27 international conventions on human rights, good governance, labor and environmental standards as well as a member of various international (WTO, Bretton Woods Institutions, UNO, WHO, EBRD, ADB, AIIB, OSCE), as well as regional unions and organizations (CIS, EAEC⁵, Shanghai Cooperation Organization (SCO)⁶, CACO (Central Asian Cooperation Organization), Central Asian Economic Community⁷, Russian-led Eurasian Economic Union (EEU). Yet, as a small landlocked state in Central Asia, the Kyrgyz Republic is still vulnerable to the influence of its larger neighbors. At all times its strategy has been a multi-vector approach, balancing its dependence on China, Russia, Kazakhstan and the US. In early 2017, the \$1.7 billion "CASA-1000" project was finally inaugurated in Tajikistan by government officials from Afghanistan, Pakistan, Tajikistan, and Kyrgyzstan. It enables the Kyrgyz Republic to increase its electricity exports through 1,250 km of high-voltage transmission line to Afghanistan and Pakistan. And finally, the most recent China-led "One Belt-One Road" (OBOR) announced recently by China's President Xi Jinping. Several billion dollars have already been invested in Central Asia under this initiative. This ambitious project aims to increase China's weight in the global economy by facilitating the shipment of Chinese goods to destination markets through Central Asia, promoting China's energy security and spreading Chinese investments in foreign countries. For Central Asia, OBOR Initiative is an opportunity to transform from a landlocked to a transit region, and thus receive a new impulse for its economic development. However, for the time being, there are no any developments or ongoing activities in Kyrgyzstan and hence, it is difficult to judge on what the country would gain or lose under this geopolitical upheaval.

2.2 Outlook for Switzerland (potential for discrimination)

For more than 25 years, Switzerland and Kyrgyzstan signed more than 20 agreements on issues of bilateral cooperation. An agreement to avoid double taxation was signed by parties in 2001 and ratified in 2002. However, since 2016 the Swiss side is trying to amend the Double Taxation Agreement (DTA) by adapting the exchange of information provision to the international standards. The Swiss Government also added some other provisions which are the new minimum standard resulting from the OECD/G20 project on "Base erosion and profit shifting". However, due to

⁵ Eurasian Economic Community, gegründet am 6. Oktober 2000 (Mitglieder: RU, Belarus, KZ, KG, TJ, UZ).

⁶ China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan + Uzbekistan, Indien, Pakistan, (2017).

⁷ Dieser Organisation gehören - neben Kirgistan - auch Usbekistan, Kasachstan und Tadschikistan an.

communication issues (language proficiency) and other reasons (frequent reshuffling of Kyrgyz Government and hence, change of competent person in-charge of CH-KG negotiations on DTA amendment, no convincing argumentation and explanations from the Kyrgyz side) these ongoing negotiations are rather slow and counterproductive.

Another bilateral agreement on mutual protection of investments was ratified in 2003. However, the Kyrgyz authorities are not always keen and capable to implement these and other bilateral agreements due to low enforcement capacities and institutional issues (e.g. frequent changes of the national legislation that is very often contradicting to international agreements and conventions).

The total amount of the bilateral Swiss Official Development Assistance (ODA) to Kyrgyzstan from 1993 to date accounts for **CHF 392⁸ million**. The average budget of the development cooperation assistance provided by the Swiss Government to Kyrgyzstan amounts to CHF 20-25 million per year and in 2017 Swiss ODA amounted to CHF 24.9 million.

3 Foreign Trade

3.1 Development and General Outlook (including trade in goods)

The overall trade turnover (export and imports) in 2017 amounted in absolute figures to USD 6.27⁹ billion (2016: USD 5.46 billion), with the trade balance is being negative – USD 2.69 billion. Exports (of which about 70% is gold) amounted in absolute terms up to USD 1.79 billion or 16% increase from the previous year. Imports totaled absolute figures up to USD 4.48 billion or 14% increase from the previous year.

Last year Government declared substantial improvement in trade volumes with both Eurasian Economic Union (EEU) member countries and European Union (EU). So, according to the official trade statistics of the Government, trade turnover with the EEU countries increased by 16% in 2017. Exports to Kazakhstan in 2017 amounted to USD 297.2 million and grew by 12% year-on-year. Among the main goods are ore and its concentrates, dairy products, fruits and vegetables. Exports to Russia last year amounted to USD 262.2 million, or 1.5 times more than in 2016. Among the main export items: garment and clothing products – USD 94.8 million, dairy products – USD 13 million, fruits and vegetables USD 48.9 million.

Trade turnover between Kyrgyzstan and the European Union in 2017 amounted to USD 246 million growing by 3.4% year-on-year. The Kyrgyz Republic was granted GSP+ status for quite a list of locally produced goods at the beginning of 2016 but still can't fully exploit on its potential due to low compliance with EU technical regulations and poor standard and quality infrastructure.

Amongst the most prominent bilateral trade agreements the Kyrgyz Republic concluded in the course of 2017 could be mentioned the ones with Uzbekistan and Turkey. In late 2017, after his inauguration the Kyrgyz President paid his first official visit to Uzbekistan where he and his Uzbek colleague signed up the new bilateral trade agreement. The official visit of Kyrgyz President Jeenbekov coincided with the Kyrgyz-Uzbek Business Forum and exhibition of goods that are produced in Kyrgyzstan and have high demand in Uzbek market, such as: construction materials (travertine, glass, slate), agricultural products (potatoes, apples), raw materials (leather and knitwear, garments and clothes). The trade turnover between Kyrgyzstan and Uzbekistan increased by twofold in the first half of 2017 and amounted to almost USD 310 million for the whole 2017. According to the bilateral trade agreement Kyrgyzstan and Uzbekistan are committed to increase their trade turnover up to USD 500 million within two years.

As for the Kyrgyz-Turkish bilateral trade agreement: due to historical ties between Kyrgyzstan and Turkey and common linguistic roots, Turkey is one of the main trade and investment partners of Kyrgyzstan. Most recently, in spring of 2018, Kyrgyz President visited Ankara where he signed with his Turkish counterpart a new bilateral trade agreement aiming at boosting economic ties between Kyrgyzstan and Turkey. The current trade turnover between two countries for is about USD 350 million with an aim to increase it up to USD 1 billion within next couple of years.

3.2 Bilateral trade

⁸ Source: DDC/STAB, Service spécialisé Statistiques/ROM, 22.3.2017.

⁹ All the data on foreign trade are preliminary as final figures on Balance of Payment with export and imports figures are to be finalized and published by NBKR in June 2017.

According to the National Statistic Committee of the Kyrgyz Republic, Switzerland was the main export destination for Kyrgyzstan followed by the Eurasian Economic Union member states, Kazakhstan and Russia in particular. Thus, Switzerland holds nearly half of the Kyrgyz overall exports mainly thanks to export of gold. It takes the top (number one) place regarding the value of exports from Kyrgyzstan for over the last several years. According to Kyrgyz official data on trade, in 2017 the trade turnover of the Kyrgyz Republic with the Swiss Confederation made up USD 507.5 million and decreased by 23%. Exports to Switzerland amounted to USD 489.3 million or by 24.5% less than a year earlier, and imports totalled to USD 18.2 million (1.55 fold increase). The main item of Kyrgyz export to Switzerland is gold which in 2017 amounted to USD 484.7 million.

According to the official data of the Swiss Government over the last year, the trade turnover between the Swiss Confederation and the Kyrgyz Republic increased from CHF 69.5 in 2016 and amounted last year up to CHF 347.6 million (500% increase!), including CHF 15.7 million (or 34.5% increase from 2016) exports of the Swiss Confederation and CHF 331.9 million (474.6% increase from 2016) imports from the Kyrgyz Republic. There is still a negative trade balance of CHF 316.2 million. However, the outlook for bilateral (CH-KG) trade since last year has positive trend as there is a huge increase in trade volume from the previous year which could be also explained by improvement of Kyrgyz trade statistics and Balance of Payment methodology.

Another possible reasons of such incredible hike of trade turnover between the two countries could be growing trend for the World gold prices throughout the whole 2017 with the maximum price per 1 ounce amounted to USD 1'346.25 as of September 8, 2017¹⁰.

Other than gold, the main exports items from Switzerland to Kyrgyzstan are as follows: pharmaceutical products, machinery and equipment, optical and medical equipment, paper and paper products, and watches. For more detailed information on foreign trade of KR and bilateral Swiss-Kyrgyz trade see **Annexes 3 and 4**.

4 Direct Investment

4.1 Development and General Outlook

According to the WBG/IFC estimates, the stock of foreign direct investments (FDIs) dropped by nearly 50% in 2017 over the last 7 years (compared to 2010) despite various reforms by the Government of the Kyrgyz Republic and supported by number of international donor agencies aimed at stimulating the business environment and facilitating investments. Although the Kyrgyz authorities have pursued economic reforms, their implementation remains highly problematic. Numerous studies and surveys conducted by international and national organizations identify as main obstacles the regulatory uncertainty (the regulatory implementation gap) and the lack of rule of law. These studies and surveys also prove that investors often withdraw their investments, or cancel expansion plans due to limited and the ineffective investor protection framework. As to the latter, Kyrgyzstan is considered as the worst among the Central Asian countries, resulting in more than 12 international arbitrations, costing the Government an average USD 10.4 million in damages per arbitration case and USD 3 million per case in legal and administrative costs. Once an investor enters the country, a non-transparent and highly unpredictable regulatory system gives rise to the regulatory uncertainty. These factors negatively affect the country's investment attractiveness, and hamper investor retention.

These issues are well reflected in the official Kyrgyz Government statistics according to which, the *stock* of FDIs over 2017 increased by only 15,5% year-on-year and amounted to USD 4'585.4 million. According to Government there was a significant outflow of FDIs in 2017 amounted to USD\$724 million which makes the negative net FDIs inflows totaled to USD\$107.2 million.

The main sectors at which FDIs were channeled last year include processing industry, mining, ICT, research activities and financial sector. Russia was the number one investor in Kyrgyzstan with USD\$74.4 million; China became the second largest foreign investor with USD\$36.0 million investments, the third largest investor was Germany with USD\$ 32.8 million, followed by Netherlands (USD 15.2 million) and Turkey (USD 10.1 million). The top-6 investor of Kyrgyzstan in 2017 – Japan which invested USD 8.1 million on the economy of Kyrgyzstan.

4.2 Bilateral investment flow

Current investments from Switzerland are very limited. In 2017, according to the data of National Statistical Committee the net inflow of Swiss FDIs amount only USD 4.8 million, which is very low (data on investments by sectors and companies are not available). This accounts for almost 1.5% of total FDIs (stock), and hence, places Switzerland at the 7-th ranking in terms of FDIs inflows over the past (2017) year. However, the relatively strong Swiss presence in

¹⁰ Source: <https://www.gold.org/data/gold-price>

the country through the SDC and SECO development programmes and the geographic similarities (mountainous countries with water resources) provide some opportunities for Swiss investors (see the list of Swiss companies currently operating in the country in **Annex 6**).

With regard to the potential areas for Swiss investments, given the fact agro-processing/agri-business followed by tourism are the top priorities for the Government at present, agriculture and tourism can be considered as the most promising sectors for Swiss potential investors, provided the country remains politically stable and secure in the medium- and long-term.

Agriculture (raw and processed fruit and vegetables), food (meat and dairy products) processing and dairy products also have a great potential for domestic, regional and international export. The climatic conditions allow high quality production of vegetables, fruits and berries, much of it traditionally with little or no use of chemicals and fertilizer. The textile and clothing sector is fairly well developed and could open interesting investment opportunities (also for Swiss investors) considering the existing export markets to Russia and Kazakhstan, especially in the light of Kyrgyzstan's membership in the EEU and possibility to enter EU market (GSP+).

Also, provided infrastructure is well-developed, Swiss potential investors could consider possibilities to investment into ICT solutions aimed at improved connectivity within the country through innovative solutions. Hydropower especially small hydropower plants would be another option for possible Swiss investments.

5 Trade, Economic and Tourism promotion "Country advertising"

5.1 Foreign economic promotion instruments

Given the small size of the Kyrgyz market, Swiss enterprises have limited operations and turnovers in the country at present. The last session of the bilateral Trade and Economic Commission was held in Bishkek two years ago and the next sessions is planned for 2020 to be held in Switzerland. However, there are series of 'ad hoc' and informal exchanges envisaged during short high-level delegations from Switzerland envisaged in mid-2018 and 2019.

5.2. Interest for Switzerland as a location for tourism, education and other services

As in other former Soviet Union countries, Switzerland enjoys a good reputation for tourism (esp. winter tourism), watch industry, pharmaceutical industry, financial services and banking sector, education, agro-processing (mainly dairy) and other services. However, given the regulatory implementation gap, lack of rule of law and due to limited and the ineffective investor protection framework, Kyrgyz market is not that attractive for Swiss businesses. This adds to other factors, such as: small-size economy with limited number of population, landlocked location, and weak local economy, concentration of wealth amongst small elites that hamper new investment and retention of the current ones in the country's economy, corruption and lack of independence of justice (protection of assets).

Annex 7 provides assets and liabilities to invest into Kyrgyzstan which could be useful while taking decision by potential Swiss investors.

5.3 Interest for Switzerland as a financial location

The Kyrgyz financial system consist of 25 banks, 150 micro credit institutions, 109 credit unions and 17 insurance companies. The system is small and bank-dominated. Banking system's assets stood at USD 205,3 million as of March 2018. Banking system's assets and loans comprise respectively 40% and 20% of GDP as of September, 2017. Foreign banks (largest ones from Kazakhstan, Russia and Turkey) account for about 45% of total banking system assets.

Banking sector's capital adequacy appears relatively high (24.2% at the end of March 2018). The non-performing loans have slightly increased in recent years and after reaching the highest level with 9.5% in October 2016, started to decrease and stood at 7.9% as of March 2018. With the help of macro-prudential measures implemented in recent years, dollarization of the financial system decreased and foreign currency loans and deposits and stood at 48.6% and 38.6% as of March 2018. Banking sector profitability is at a low level with (annualized) 7.1% ROE and 1.1% ROA. Profitability of the industry is declined due to high loan deterioration and tightening margins.

Due to the small size of the Kyrgyz financial system in which commercial banks are dominating, there is a low interest from Swiss financial institutions to come to this underdeveloped financial market. Besides, almost all financial institutions in the country are mainly oriented to the domestic market; so far there is only one commercial bank with foreign capital represented through branches abroad (in Kazakhstan) - Kyrgyz Investment Credit Bank - KICB.

Economic structure*

	2012	2017
Distribution of GDP		
Primary Sector	22	15%
Manufacturing Sector	27	29%
Services	50	56%
- of which public services	6	5%

Distribution of employment		
Primary sector	29	30%
Manufacturing sector	18	20%
Services	53	50%
- of which public services	6	5%

*Source: National Statistical Committee of KR.

Main economic data

	2016	2017	2018 (forecast/ target)
GDP (USDbn)*	6'813,1	7'485,7	7'672.8
GDP per capita (USD)*	1'109,6	1'196,4	1'214.0
Growth rate (% of GDP)*	4.3	4.6	2.8
Inflation rate (%)*	-0.4	3.2	5.0
Unemployment rate (%)*	7.2	7.8	7.6
Fiscal balance (% of GDP)*	-4.4	-3.2	3.0
Current account balance (% of GDP)*	-11.6	-3.1	3.7
Total external debt (% of GDP)*	55.5	54.5	70.0
Debt-service ratio (% of exports)*	8.2	7.9	--
Reserves (months of imports)*	4.7	4.8	4.5

*Sources: National Statistical Committee of KR, NBKR and Financial Programming Model customized for Kyrgyz Government under SECO supported TA Project.

³ Forecast for the year following that under review in the annual report

Trade partners year: 2017

Host country view

Rank	Country	Exports from the host country (USD million)	Share	Change ¹¹	Rank	Country	Imports to the host country (USD million)	Share	Change ¹
1	Switzerland	489,3	27.3%	75.5%	1	China	1'500,1	33.5%	102.2%
2	Kazakhstan	297,2	16.6%	111.9%	2	Russia	1'180,5	26.3%	103.3%
3	Russia	262,2	14.6%	1.5 fold	3	Kazakhstan	586,0	13.1%	134.0%
4	United Kingdom	191,2	10.7%	6 fold	4	Turkey	224,9	5.0%	117.7%
5	Uzbekistan	146,3	8.2%	116.9%	5	Uzbekistan	163,6	3.7%	2.4 fold
6	Turkey	131,2	7.3%	1.5 fold	6	Belarus	83,1	1.9%	1.8 fold
...					...				
					16	Switzerland	18,2	0.4%	1.5 fold
					...				
	Total	1'790,7	100 %	113.8%		Total	4'481,3	100 %	112.0%

Source: National Bank of KR.

¹¹ Change from the previous year in %

Bilateral trade

PROVISORISCHE ERGEBNISSE										
Eidgenössische Zollverwaltung EZV, Aussenhandelstatistik, 3003 Bern										
TN103: Schweizerischer Aussenhandel nach Ländern und Kapiteln										17.01.2018
Periode: Januar bis Dezember 2017										
Land: 190 Kirgisische Republik										

* = Veraenderungsrate / Anteile nicht berechenbar

** = Veraenderungsrate > 999,9 %

Total 2: Ergebnisse inklusive Gold in Barren und anderen Edelmetallen, Münzen, Edel- und Schmucksteinen sowie Kunstgegenständen und Antiquitäten.

(source: https://www.chatworld.eda.admin.ch/ForeignTradeStatistics/2017/tarifnummer/land_kapitel/tn3kg.htm).

Total 2		Import in Mio. CHF				Export in Mio. CHF				Saldo in Mio. CHF	
		2016	2017	+/- %	Anteil	2016	2017	+/- %	Anteil	2016	2017
Total		57.76	331.93	474.6	100.0	11.66	15.69	34.5	100.0	-46.10	-316.23
01 - 24	Landwirtschaftliche Produkte	0.13	0.31	131.0	0.1	0.23	0.31	32.5	1.9	0.10	0.00
27	Energieträger			*	*	0.00	0.00	104.1	0.0	0.00	0.00
28 - 29	Chemische Grundprodukte			*	*	0.00	0.00	-14.3	0.0	0.00	0.00
30	Pharmazeutische Erzeugnisse		0.00	*	0.0	6.44	7.34	14.0	46.8	6.44	7.34
31 - 32	Düngemittel, Farbstoffe, Pigmente		0.00	*	0.0	0.03		-100.0	*	0.03	0.00
33 - 34	Schönheitsmittel, Waschmittel	0.00		-100.0	*	0.07	0.02	-65.5	0.1	0.06	0.02
35 - 38	Stärke, versch. chemische Erzeugnisse	0.00		-100.0	*	0.06	0.08	25.3	0.5	0.06	0.08
39 - 40	Kunststoffe, Kautschuk		0.00	*	0.0	0.14	0.07	-51.3	0.4	0.14	0.07
41 - 43	Felle, Leder, Lederwaren		0.00	*	0.0	0.03	0.03	-12.7	0.2	0.03	0.03
44 - 46	Holz, Kork, Flechtwaren	0.00	0.00	760.6	0.0	0.03	0.00	-86.7	0.0	0.03	0.00
47 - 49	Papier und Papierwaren			*	*	0.56	1.31	134.1	8.3	0.56	1.31
50 - 63	Textilien und Bekleidung	0.07	0.20	182.3	0.1	0.02	0.13	667.0	0.8	-0.05	-0.07
64 - 67	Schuhe, Schirme usw.	0.00	0.00	53.7	0.0	0.05	0.09	82.1	0.6	0.05	0.09
68 - 70	Waren aus Steinen, Keramik, Glas			*	*	0.01	0.04	236.0	0.3	0.01	0.04
71	Edelsteine, Edelmetalle, Bijouterie	57.53	331.34	475.9	99.8	0.00	0.89	**	5.7	-57.53	-330.44

72 - 83	Unedle Metalle und Waren daraus	0.01	0.00	-20.8	0.0	0.15	0.06	-60.0	0.4	0.14	0.05
84	Maschinen (nicht elektrisch)			*	*	0.13	0.42	215.3	2.7	0.13	0.42
85	Maschinen (elektrisch)		0.00	*	0.0	2.28	1.86	-18.3	11.9	2.28	1.86
86 - 89	Fahrzeuge, Flugzeuge usw.		0.00	*	0.0	0.01	1.14	**	7.3	0.01	1.14
90	Opt. / medizin. Instrumente		0.00	*	0.0	0.83	1.02	23.1	6.5	0.83	1.02
91	Uhrmacherwaren	0.00	0.07	**	0.0	0.47	0.40	-15.8	2.5	0.47	0.33
94	Möbel, Bettzeug usw.	0.00	0.00	**	0.0	0.00	0.05	**	0.3	0.00	0.05
95 - 96	Spielzeuge, Sportgeräte usw.		0.00	*	0.0	0.12	0.37	197.7	2.4	0.12	0.37
97	Kunstgegenstände, Antiquitäten	0.02	0.00	-93.2	0.0		0.06	*	0.4	-0.02	0.06

Main investing countries

year: 2017

Rank*	Country	Direct investments (mln. USD, stock)	Share (stock)	Net inflows over past year (mln. USD)
1	Russia	1'273.1	27.7%	74.4
2	China	1'441.7	31.4%	36.0
3	Germany	166.4	3.6%	32,8
4	Netherlands	9.4	0,2%	15.2
5	Turkey	188.6	4.1%	10.1
6	Japan	56.2	1.2%	8.1
7	Switzerland	65.2	1.4%	4.8
....
	..the rest	1'384.8	30.2%	
	Total	4'585.4	100%	-107,2

Source: National Statistical Committee of KR

* - investing countries are ranked according to investment inflows over the past year.

Business Environment: Assets & Liabilities

- **Assets (positive trends and developments)**
- Parliamentary democracy with a relatively vocal (active) civil society
- Relatively free and independent mass media (but under increasing political pressure and self-censorship)
- Strong financial support from Russia and donors including the Bretton Woods Institutions
- Strategically important country as part of the northern supply route to Afghanistan, Pakistan and Iran from China (Road Belt Initiative)
- Growing economic ties with its neighbours (Kyrgyz membership in EEU enables to enter bigger markets within EEU through Kyrgyzstan) as well as with West (GSP+ status granted by EU)
- Sizeable potential in hydropower generation and mining
- Favourable local legislation for FDIs (declared)
- Solid and transparent financial sector with relatively independent financial regulator (Central Bank)
- Liberal market economy in contrary to neighbouring countries with autocratic regimes
- Relatively easy and non-cost trade logistics for potential foreign trade
- Specialised agency to assist foreign investors and exporters – State Agency on Export and Investment Promotion
- Visa-free regime for >60 countries
- **Liabilities (where improvement is needed)**
- Implementation gap when it comes to enforcing the legislation with frequent and inconsistent changes in legislation
- Pervasive endemic corruption and lack of transparency/accountability in public administration and in the judicial system (courts are always take decisions in favour of state)
- Heavy burden of bureaucracy and high administrative costs for business to comply with Government regulations and procedures
- Limited access to finance due to lack of collateral as well as limited access to working capital for SMEs in form of long-term credits in local currency
- Lack of qualified and skilful labor force (in some sectors/areas) and absence of core labor standards to provide tailored training or re-training for the market based on its need and demand
- Unsafe and unsecured property rights for foreign investors
- Instability and insecurity (especially in the South); unpredictable and high risky political situation
- Obsolete and rapidly degrading infrastructure, especially energy and basic infrastructure
- Sub-optimal model of economic growth/development with high dependence on gold, foreign aid and remittances
- Insufficiently diversified economy complicated by high level of shadow (informal) economy which is to some estimates is equal to 40-50% of country's GDP
- Small size of economy/market with no access to sea (land-locked country) and poor connectivity due to absence of road infrastructure (incl. rail-roads)
- Small scale farming and prevalence of micro, small and medium-size enterprises as they do not want to grow
- Drug trafficking and organised crime, especially in the South
- Frequent staff turnover (changes/reshufflings) of public administration management and as a consequence absence of continuity and ownership of reforms by Government
- Problems with corresponding banks due weak enforcement of AML/CFT measures causes higher transaction costs for SMEs (exporters) to trade
- Lack of in-country certified labs to export abroad as well as absence of quality and standard infrastructure.

Map of Kyrgyz Republic

